Liechtensteinische Landesbank 1861

Tradition meets Innovation.

Excellence

through
Experience

156th Annual Report 2017

ar2017.llb.li

The LLB Group in profile

The LLB Group successfully positions itself as a universal bank with a strong private banking and institutional business.

First bank in Liechtenstein
founded in 1861

Moody's rating
Aa2

Three banks:
Liechtenstein, Switzerland and Austria

Two competence centres:
LLB Asset Management and LLB Fund Services

Three high-earning market divisions

32.6 %
Retail & Corporate Banking

30.2 %
Private Banking

37.2 %
Institutional Clients

Diversified income structure

44.4 %
Investment business

17.7 %
Trading business

37.9 %
Interest business

Outstanding investment competence

Thomson Reuters Lipper Fund Awards, Europe & Germany – 2017
AI International Hedge Fund Awards 2017
Austrian Umbrella Award 2017

Top employer 2017

SWISS ARBEIT GEBER AWARD

Information for shareholders

LLB share

Security number		35514757
ISIN		LI0355147575
Listing		SIX Swiss Exchange
Ticker symbols	Bloomberg	LLBN SW
	Reuters	LLBN.S
	Telekurs	LLBN

Capital structure

	31.12.2017	31.12.2016	+ / – %
Share capital	154'000'000	154'000'000	0.0
Total shares issued	30'800'000	30'800'000	0.0
Total shares outstanding, eligible for dividend	28'877'063	28'840'762	0.1
Weighted average shares outstanding	28'869'770	28'836'386	0.1

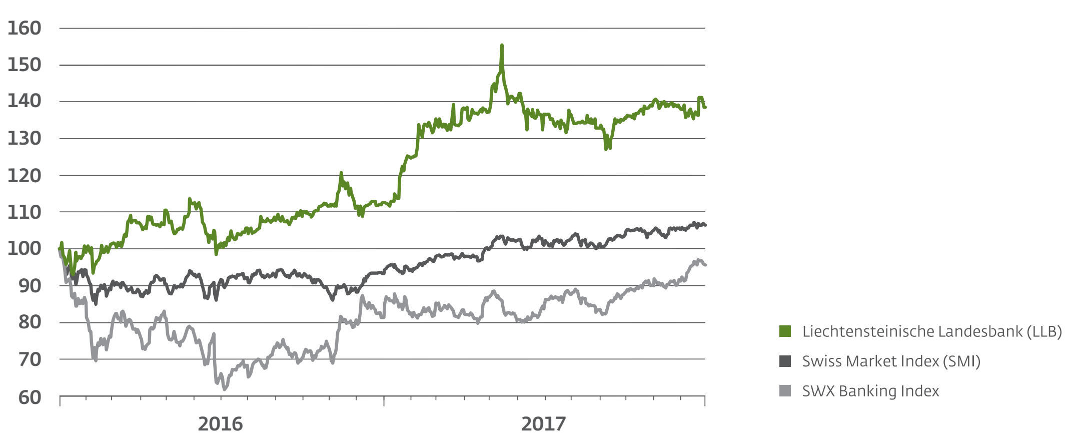
Information per share

	31.12.2017	31.12.2016	+ / – %
Nominal value (in CHF)	5.00	5.00	0.0
Share price (in CHF)	49.65	40.35	23.0
Basic earnings per share (in CHF)	3.66	3.40	7.6
Price / earnings ratio	13.58	11.87	
Dividend (in CHF)	* 2.00	1.70	

* Proposal of the Board of Directors to the General Meeting of Shareholders on 9 May 2018.

Comparison of LLB share

Indexed from 1 January 2016



Key figures

Consolidated income statement

in CHF millions	2017	2016	+ / − %
Income statement			
Operating income	399.4	371.7	7.5
Operating expenses	−267.0	−258.2	3.4
Net profit	111.3	103.9	7.1
Performance figures			
Cost-Income-Ratio (in percent) * / **	69.6	62.8	
Return on equity attributable to the shareholders of LLB (in percent)	6.1	5.9	

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss (expense) / recovery).
** Adjusted to consider market effects (interest rate swaps and price gains) the Cost-Income-Ratio stood at 73.9 percent for 2017 and at 66.5 percent for 2016.

Consolidated balance sheet and capital management

in CHF millions	31.12.2017	31.12.2016	+ / − %
Balance sheet			
Total equity	1'883	1'806	4.2
Total assets	20'017	19'958	0.3
Capital ratio			
Tier 1 ratio (in percent) *	22.2	21.0	
Risk-weighted assets	7'568	7'587	−0.3

* Corresponds to the CET ratio 1 because the LLB Group has solely hard core capital.

Additional information

in CHF millions	31.12.2017	31.12.2016	+ / − %
Business volume	62'336	57'967	7.5
Assets under management	50'252	46'428	8.2
Loans	12'084	11'539	4.7
Employees (full-time equivalents, in positions)	867	858	1.1

Purely for ease of reading, the masculine form used in this document is intended to refer to both genders.
Liechtensteinische Landesbank Aktiengesellschaft is referred to variously in the following as Liechtensteinische Landesbank AG, Liechtensteinische Landesbank, LLB AG, LLB as well as LLB parent bank.
Liechtensteinische Landesbank (Österreich) AG is also referred to as LLB (Österreich) AG and LLB Österreich.
Bank Linth LLB AG is also referred to in this report as Bank Linth.

This consolidated interim financial reporting is published in German and English. The German version is authoritative.
We also offer the 2017 consolidated interim financial reporting in an interactive online version:

German: http://gb2017.llb.li
English: http://ar2017.llb.li

Due to rounding, the numbers presented in this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Contents

To the online annual report with
Roland Matt in a video interview

Roland Matt
Group CEO

Georg Wohlwend
Chairman of the Board of Directors

Letter to shareholders

A future built on excellence

Dear Shareholders

Since the General Meeting of 12 May 2017, I have had the privilege, as Chairman of the Board of Directors, together with our Group CEO Roland Matt, of guiding the future of the LLB Group. During the past year, I have familiarised myself in detail with the scope of my duties and tasks, and I can now say with conviction that the LLB Group has many strengths.

We are a bank that clients trust. We are a bank that is well aware of its tradition, but which at the same time facilitates its clients' access to the financial world by offering innovative products and services. We are a bank with a strong capital base, a high level of stability and a clear strategy. And we are a bank with which its staff strongly identify.

StepUp2020 strategy takes effect

At the LLB Group, 2017 was characterised by sustained, profitable growth. In the second year of realising of our StepUp2020 strategy, we reached a milestone in our progress by attaining a business volume of CHF 62.3 billion. Thanks to our innovative power, flexibility and closeness to clients, we were successful in further strengthening our position in the target markets. We have the correct goals and our path is clearly defined – the StepUp2020 strategy is taking full effect.

Gratifying Group net profit

The macro-economic and political environment continued to be challenging. Negative interest rates and increasingly strict regulatory measures made further demands on the banks in 2017. At the same time, the stock markets exhibited a stable upward trend with low volatility. In this environment the LLB Group attained a gratifying net profit.

Operating income rose by 7.5 percent while operating expenses remained stable. At CHF 111.3 million, Group net profit was 7.1 percent higher than the previous year's level (2016: CHF 103.9 million.). This is the fourth increase in succession. Loans to clients increased to CHF 12.1 billion (2016: CHF 11.5 billion) and client assets under management expanded by 8.2 percent to CHF 50.3 billion (2016: CHF 46.4 billion). A net new money inflow of CHF 470 million (2016: minus CHF 65 million) confirmed that we have accomplished a positive trend turnaround.

Higher dividend

Our shareholders share in our good business result. In accordance with our long-term dividend policy, the Board of Directors will propose to the General Meeting of Shareholders on 9 May 2018 an increase of 17.6 percent in the dividend compared with the previous year to CHF 2.00 (2016: CHF 1.70). This represents an attractive dividend yield of 4 percent.

The price of the LLB share also rose substantially in 2017. On 31 December 2017, the share closed at CHF 49.65. Its total return stood at plus 27 percent. The STOXX Europe 600 Banks banking index in CHF at the end of December 2017 stood at 22.7 percent. At the end of May

2017, we completed the conversion of our former bearer shares into registered shares. This measure enables us to have an even more focused communication with our shareholders.

Security and stability

The financial security and stability of the LLB Group have become even more solid. Our equity consists solely of hard core capital and totalled CHF 1.9 billion on 31 December 2017, the Tier 1 ratio stood at 22.2 percent. This ratio substantially exceeded the legal requirements and represents a very sound capital base in international comparison. The LLB Group is superbly capitalised and has plenty of scope for its growth ambitions.

In April 2017, the rating agency Moody's confirmed Liechtensteinische Landesbank's Aa2 deposits rating, which underlines our stability and financial power. Accordingly, LLB is among the top range of Liechtenstein and Swiss banks and ranks well above the average of European financial institutions.

Excellent investment competence

A further strength of the LLB Group is its investment competence. For its strategy funds, which represent the most important performance indicator of every asset manager, our LLB Asset Management competence centre was again awarded top rankings in 2017; among others, first place in Europe and Germany at the Lipper Fund Awards 2017 as well as three other first places in January 2018.

Furthermore, our clients greatly appreciate our "LLB Invest" model for the asset management and investment advice of the future. Within one and a half years, its volume has risen by CHF 1.6 billion.

Digitalisation offensive

Above all, 2017 was the year of our digitalisation offensive. In February, we introduced new mobile banking apps with touch ID for LLB and Bank Linth designed in accordance with the latest security and technological standards.

In July 2017, we presented our new web portal with integrated online banking. It combines a modern layout with a completely responsive design. The new infrastructure provides us with an excellent basis on which to continually expand and refine our online services and make them even more attractive for our clients.

The digitalisation of banking business – both for our clients and ourselves – is one of the key priorities of the StepUp2020 strategy. Many clients select their bank on the basis of its digital service offering. However, when it is a case of complicated financial subjects, many clients want to talk personally with their trusted adviser.

Bank branch of the future

Our omni-channel strategy includes a modern bank branch concept. Since June 2017, the headquarters of Bank Linth in Uznach have reflected this "bank of the future" concept, which has already proved its worth for two years at the branch in Sargans. The entire network of bank branches is to be converted to the concept by 2020.

Over the next three years, LLB will also adapt its three bank branches in Liechtenstein to accommodate changed client behaviour. In our bank branch of the future, obtaining advice in a multi-media client zone becomes an inspiring experience, while the self-service possibilities for carrying out bank and financial transactions set new standards of efficient service.

Certified client advisers

The higher demands our clients make on the standard of advice and the constantly changing situation on the financial markets require a very high level of competence from our client advisers. By the end of 2020, all our client advisers will have completed a specific training programme in accordance with the standards of the Swiss Association for Quality. The SAQ certification of our client advisers enables us to ensure long-term, outstanding advisory competence according to standardised quality criteria

Lean management

At the LLB Group, the valuable, quality time that our advisers spend with their clients is a key success factor. In 2017, Our Operational Excellence Competence Center continued with the implementation of our lean management culture. The progress achieved in enhancing efficiency, optimising IT and simplifying structures and processes facilitates growth and profitability. The goal of this concept is to establish a sustained culture of continual improvement within the company.

Corporate responsibility

The LLB Group regards corporate social responsibility as being an integral part of its business success. For us social responsibility means harmonising economic activities with our responsibility for society and the environment. This is reflected in the five key themes of market performance, compliance, society, environment and employees.

The significance we attach to these areas is also reflected in this annual report, in which we apply the standards of the Global Reporting Initiative – "Core Option". In this way, we reveal how – as summarised on page 75 – we fulfil our corporate and social responsibilities.

Employer of choice

Our employees and executives play a vital role in the implementation of our strategic initiatives with their dedication, knowledge, skills and commitment. In 2017, we enhanced our position as an attractive employer, as confirmed by the top grades our employees awarded us in the 2017 staff survey. The excellent result achieved by the LLB Group – for the second time already – culminated in the Swiss Employer Award, which motivates us to implement further measures to enable us to be the employer of choice for talented employees and executives.

MiFID II implemented

The complex EU "Markets in Financial Instruments Directive", (MiFID II) confronted us with many challenges. We pulled out all the stops to optimise our processes and modify our IT infrastructure so that the extensive regulatory changes could be implemented on time and with a specific focus for our clients. For us this was not just a case of extra time and effort, we also saw the opportunities and supplemented our range of investment services with the "LLB Basic" advisory model.

Successfully going forward

With our strategic objectives fully in mind, we shall maintain the successful course of the LLB Group going forward into 2018. Thanks to the dedication of all our teams, we have achieved significant progress with our strategic core elements of growth, profitability, innovation and excellence.

Digitalisation will continue to be a key priority. The training programme for client adviser certification and the lean management Group programme will make a major contribution to focusing our company even more sharply on the requirements of our clients. The "team@work" Group project is a further step in the development of the digital work place. Our goals are to improve collaboration, the exchange of knowledge and the way information is processed.

Acquisitions in Austria and Switzerland

As part of our StepUp2020 strategy, we also set ourselves the goal of making acquisitions in our domestic markets of Liechtenstein, Switzerland and Austria. At the end of December 2017, we announced the takeover of Semper Constantia Privatbank AG in Vienna. This is a major step, which will enable us to significantly expand our business in Austria and position Austria as our third strong, domestic market.

In February 2018, we signed a purchase agreement to acquire the shares of LB(Swiss) Investment AG, Zurich. This takeover, in line with its strategy, enables the LLB Group to gain access to the Swiss investment fund market and to substantially expand its fund business, which it will in future operate from the three locations of Liechtenstein, Austria and Switzerland.

The takeovers of Semper Constantia Privatbank AG and LB(Swiss) Investment AG represent a quantum leap in the realisation of the StepUp2020 strategy. Both acquisitions are important elements for accelerated growth.

In 2018, the integration of Semper Constantia Privatbank and LB(Swiss) Investment will be key priorities of our work. The integration of LB(Swiss) Investment should be completed by July 2018. In the second quarter, we plan to rename the company "LLB Swiss Investment AG".

It is expected that Semper Constantia Privatbank will be taken over in July 2018. Thereafter it is planned in September 2018 to merge Semper Constantia with LLB Austria to form Liechtensteinische Landesbank (Österreich) AG. The resulting unit will become a top provider of private banking and institutional client services in Austria. Accordingly, it is ideally positioned to continue to grow in this attractive market.

Election of new members of the Board of Directors

The Board of Directors of Liechtensteinische Landesbank AG proposes to the General Meeting of Shareholders of 9 May 2018 – subject to approval from the supervisory authority – that Thomas Russenberger and Dr. Richard Senti be elected as new members of the Board. On account of the term of office limitation, Markus Büchel, Markus Foser and Roland Oehri will step down as members of the Board of Directors. We would like to thank them for their years of dedication to the LLB Group. In the last nine years they have made a significant contribution to strengthening our core competences and to placing our company on the path to profitable growth within the scope of our StepUp2020 strategy.

Thank you for your trust

We are confident that, thanks to our stable foundation, focused business model, diversified earnings structure and clear strategy, we are well prepared for the forthcoming challenges and opportunities, and that we can again achieve a solid Group business result in 2018.

We would like to thank our clients for their loyalty. Whatever the LLB Group achieves is predominantly thanks to the efforts, motivation and competence of our employees. We want to express our thanks to you, our esteemed shareholders, for your great solidarity and commitment to our company.

Yours sincerely

Roland Matt
Group CEO

Georg Wohlwend
Chairman of the Board of Directors

Excellence in dialogue

Around 86 billion nerve cells are in constant communication with one another so as to ensure that humans can feel, think and act. Experience improves this transmission capacity. Experience also lends wings to the quest for excellence. Four employees of the LLB Group invited four masters in their fields for a discussion. All dialogues confirm: excellence comes from inside. Excellence is something that is constantly evolving. Excellence is unique.

JÜRG HUNKELER
Head of Corporate Clients,
Bank Linth

JEFFREY TOMLINSON
Head Coach, Rapperswil-Jona
Lakers Ice Hockey Club

BIRGITTA GASSNER
Lawyer and estate
planner, LLB

HANNY BÜCHEL
Remedial and
Montessori teacher
LERNBAR Association, Balzers

THOMAS MÄHR
Head of Fund Risk
Management & Reporting,
LLB Fund Services

HORST BÖHLER
Entrepreneur,
böhler+sohn,
Feldkirch

MARC SPIRIG
Project Manager
at Group Corporate
Development, LLB Group

MARTIN RISCH
Doctor and co-CEO
Dr Risch Medical Laboratory,
Vaduz

“Things are bound to go well if expertise and gut feeling are combined.”

JÜRG HUNKELER

“Improvisation also plays an important role in ice hockey.”

JEFFREY TOMLINSON

Jeff, what do you think:

can one plan to win?

In order to give a top-class performance, a team must also always have a goal in mind.

It's therefore good to know what the players need. Or, in my case, what the employees need to approach the goal with vigour and energy.

It's the same for me. If someone wants to buy a company, I usually first try to find out what kind of person the owner is. Then I choose the specialists who suit him. We call this cross working.

At the bank – as with ice hockey – success depends on the game plan and the players.

And what I think is also needed: the team members not only have to be technically good, but must also believe in themselves.

Technique is just the tool. And you have to taste success, as this gives you the self-confidence to spread your own wings.

As head coach you also have to be able to improvise.

JÜRG HUNKELER took over responsibility for Bank Linth's corporate client business in 2018. Hunkeler, who hails from Berne and has been living in the Rapperswil region since 2011, is a banker with all his heart. He went on the ice as right winger at the age of 14, and still plays in the Rapperswil-Jona stadium every Monday. There is much that links him to the Lake Zurich region, and when the Lakers play, he is in seat 52.

Yes, I think so. We can influence success. We can give the guys a good game plan and prepare them in such a way that they feel comfortable facing exactly these opponents on the ice.

Much is a matter of instinct. Plus background knowledge.

I know my team very well. Everybody is different. Some need tender loving care, others need a kick.

I've experienced many situations during my career, good as well as less good. I've made mistakes and have learned from them. I wrote down many experiences and saved them on my computer, so that I can look them up again.

But only if the team consists of players with a good character who fight for one another, with respect and joy. Then you can also win.

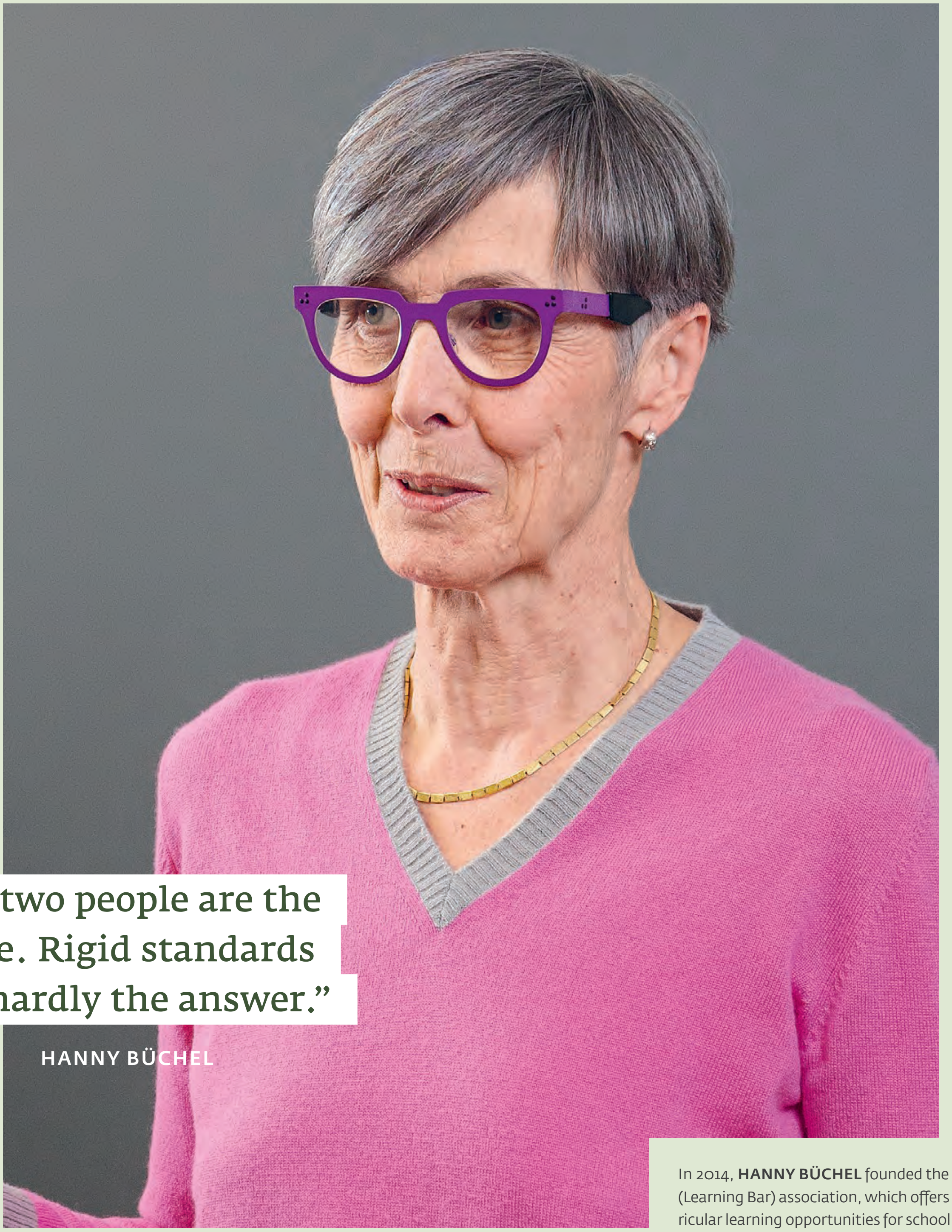
This is part of ice hockey. If Plan A doesn't work, we have to switch to Plan B in a flash.

My experience helps me make the players believe that there had never been anything else but Plan B.

JEFFREY TOMLINSON has been head coach of the Rapperswil-Jona Lakers Ice Hockey Club and Swiss vice champion since 2015. The German-Canadian already attracted attention as a centre at the age of 17. Among others, the left-handed shooter played in the British Ice Hockey Superleague and as right winger for Eisbären Berlin. He has been a coach since 2004.
His friends call him "Tomma".

Video statements by dialogue partners at **ar2017.llb.li/top-performance**

DR BIRGITTA GASSNER is a lawyer and has been working as estate planner for Liechtensteinische Landesbank since 2004. Previously she worked as a junior lawyer in Austria and as a lawyer in Liechtenstein. The birth of her sons Dominik and David turned her into a passionate mother. Education and the future prospects of her children take centre stage in her life. She and Hanny Büchel have been friends for many years.



“No two people are the same. Rigid standards are hardly the answer.”

HANNY BÜCHEL

In 2014, **HANNY BÜCHEL** founded the LERNBAR (Learning Bar) association, which offers extra-curricular learning opportunities for school children from Liechtenstein. As a remedial teacher, long-standing pre-school teacher and qualified Montessori teacher, she is very familiar with the woes of children who need more help and support to thrive in the regular school system. Particularly if the family is financially unable to buy the expensive support that is available on the free market.

BIRGITTA GASSNER:

Hanny, why do you think it so important

to be open to others?

HANNY BÜCHEL:

Why should we be open to others? We're not all born the same.

At school already the focus should therefore fall on advancement rather than on forcing everybody to be the same.

Teachers should look really carefully to identify gifts, talents and skills. And all of us should understand: children can't all bring the same performance at the same time. We have to accept this, and be open to it.

I can see how important disparity is with my two sons. As an extrovert, life is easier for the younger one. The older boy is more reserved. It's a challenge for us as parents to make him understand that everybody has their own special potential, the silent ones as well as those who are loud.

So competition is a motivating force?

Every day at the Learning Bar I see the astounding results of an approach where the children can do what they want, and aren't forced to compare themselves to others.

For example, many children try to avoid practising their reading skills. But we sat down with a newspaper and read the headlines out loud. And suddenly, reading the newspaper was fun for everybody.

Healthy ambition is what drives us forward. Trying to squeeze young people into a straitjacket with academic quotas and standardisation takes away their room for manoeuvre.

Digitisation will change the professional world, and we will need young people who pick holes in arguments, who network and structure, and who are creative.

The digital world is providing us with wonderful tools. But if we don't manage to identify the advantages and risks, our children are destined to drown in a world of digital relationships.

I agree. Every child – every person – can be a spotless and perfect hero in a computer game. This can be either an interesting experience, or fatal escapism.

The question is: those who always see this "perfect" image – to what extent are they still willing to accept anything else?

Video statements by dialogue partners at **ar2017.llb.li/education**

"Exchanging experiences makes sense, and saves on time and mistakes."

HORST BÖHLER

“We want to help people, and we don’t do it for the accolades.”

THOMAS MÄHR

THOMAS MÄHR:

What do you give people in Tanzania as

a gift to become independent?

HORST BÖHLER:

Since 2010 we have been teaching women at the Macipi Agricultural School in Ifakara how to lay sewage pipes or to build a reed bed water treatment plant. We are currently training 726 women, who will disseminate their knowledge throughout Tanzania. We want to help people in Africa to better conduct their lives.

I had the same kind of ideas in my head when I used my "hands and feet" to teach English to children in a town close to Phnom Penh. The history of Cambodia and the Khmer Rouge, a lost generation – simply incomprehensible.

My gut feeling told me: I want to do something.

Those who can speak English can find a job in the tourism industry, for example – a pillar of economic growth in Cambodia.

And when you see that you can really achieve something, like we've been doing in Tanzania the past seven years, then you're somehow proud and also happy. The best is that we could even convince the government, which has since renovated the school building.

THOMAS MÄHR Thomas Mähr is a member of the Board of Management of LLB Fund Services AG and has been heading the Fund Risk Management & Reporting department since the end of 2014. He has been working in various positions in the securities and funds business in Liechtenstein since 2000. His passion is travelling and getting to know different cultures. During a trip around the world he stopped over in Cambodia to work for a non-government organisation helping children from poor families.

It's really true:
helping others makes us happy,

and connects us to other people.
What you get in return can't be measured in monetary terms. The feeling of wanting to help is dormant within us. Often without our awareness.

But then you open your eyes when you start a project. In Africa, watches run on a different time from Europe. Our first act was to create order. It doesn't help much to try and explain something. So we collected the plastic bottles that were lying around everywhere. Quite pointedly.

The only way is to show by example how something works.

Experience has shown, however, you have no chance on your own. As in the business world, you need partners.

It seems to me that networking, exchanging ideas, learning from the experiences of others is just as important when it comes to social engagement as it is in the business world.

We don't have to reinvent the wheel the whole time.

HORST BÖHLER is a partner at böhler+sohn GmbH in Feldkirch. After finishing his studies and obtaining his master craftsman's diploma, he joined his father's company in 1965. In 2010 he passed the operational reins to his two sons, but remained active in the company. He and his friend Dr Manfred Fiel hatched the idea of establishing the "Ifakara" project at Dr Fiel's 60th birthday. When Dr Fiel died, Horst Böhler continued their social project.

Video statements by dialogue partners at **ar2017.llb.li/social-responsibility**

“Innovation is the driver of growth, and trust is the foundation of everything.”

MARC SPIRIG

MARC SPIRIG has been working as project manager for Group Corporate Development at the LLB Group since the beginning of 2016. He did an MSc degree in mechanical engineering with a major in robotics and innovation at ETH Zurich. This led to a position with Hamilton Bonaduz AG, which is involved in developing laboratory automation. At the LLB Group, Marc Spirig often deals with Group-wide change processes. He lives with his family in Balzers.

"If a company wants to be innovative, the way it interacts with people is key."

MARTIN RISCH

DR MED. MARTIN RISCH and his brother Lorenz are the second-generation managers of Dr Risch Medical Laboratory. In 2017, the two brothers were recognised for their outstanding performance with the Entrepreneur of the Year in Liechtenstein award. The family company is among the biggest laboratory groups in Switzerland. Martin Risch is a practising doctor and a specialist in clinical laboratory analytics and medical microbiology. After spending some years in Berne, St. Gallen, Zurich and Lucerne, he and his family now live in Vaduz.

MARC SPIRIG:

Mr Risch,

identity is something we are given,

how did you grow into your family company?

MARTIN RISCH:

My brother Lorenz and I saw as children what it means to build up a medical laboratory. I learned about everything, from the cellar to the attic. We laid cables, archived files, and later even ran our own tests. We accompanied our father to the laboratory on Saturdays, and developed in tandem with the different technologies.

Today, we realise that we have to separate family and laboratory. Family may not be just another container for business decisions.

I can imagine

that such a family identity is based on very specific values.

Treating one another with respect, having integrity – these are also two values embodied by the LLB Group, this is how clients become partners and colleagues become allies. This is the foundation for trust, which is also important when it comes to financial services.

Exactly. For Lorenz and me, the most important value is mindfulness.

This is closely linked to esteem, goodwill and tolerance. In a family company it is also important to listen to people, to be their point of contact, to create a working climate that motivates the employees to work together in a spirit of confidence.

Respectful coexistence also leads to innovation.

Only those who feel accepted will reveal their ideas. To summarise: no respect, no ideas, no innovation. And those who believe that robots are innovative are making a mistake. Robots only do what they've been programmed to do. Only people can think innovatively.

What's also important is the experience needed to assess situations and risks and to judge whether a decision was correct, to identify weaknesses and strengths.

But experience is not gained by snapping your fingers, experience grows in you.

And if you don't accept any risks, nothing will happen. We abide by the motto: the road that we travel with 500 employees is the goal.

For me, change is the normal condition.

The road that we travel together is constantly changing. The openness to always adjust to new client needs, regulations or to digitisation – change is constant. The pace is determined by the competition.

Those who manage to survive in the market have understood their customers.

Video statements by dialogue partners at **ar2017.llb.li/attentiveness**

Excellence in dialogue Online

Video statements by dialogue partners at **ar2017.llb.li/excellence**

Strategy and organisation

The LLB Group is a universal bank with a strong private banking and institutional banking business. It has a client-oriented business model and under its StepUp2020 strategy is targeting growth, profitability, innovation and excellence.

Group structure and organisation

Three market divisions

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

- Retail & Corporate Banking comprises the universal banking business in the home markets of Liechtenstein and Switzerland (see chapter "Retail & Corporate Banking", pages 33 – 36). It provides the full range of universal bank services to private and corporate clients. As the market leader in Liechtenstein, LLB has a strong competitive position. Bank Linth is the leading regional bank in eastern Switzerland.
- Private Banking encompasses all the LLB Group's private banking activities: investment advice, asset management, asset structuring as well as financial and retirement planning (see chapter "Private Banking", pages 37 – 40). Its focus is on the onshore markets of Liechtenstein, Switzerland and Austria, on the traditional cross-border markets in Germany and the rest of Western Europe, and on the growth markets of Central and Eastern Europe as well as on the Middle East.
- Institutional Clients encompasses the intermediary and investment fund business as well as the LLB Group's Asset Management Business Area (see chapter "Institutional Clients", pages 41 – 44). Clients include fiduciaries, lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions. The target markets are Liechtenstein and Switzerland. With our Asset Management unit, the largest investment team in Liechtenstein, we have multiple award-winning investment expertise.

Governance and management structure

The LLB Group has a stable governance and management structure and an efficient organisation.

- The Board of Directors is responsible for overall management, supervision and control; it sets the basis for the Group's strategy, organisation and finances (see chapter "Corporate governance", pages 81 – 95).
- The Group Executive Board comprises the heads of the six divisions – the three market divisions and Group CEO, Group CFO and Group COO (see organisational structure, pages 76 – 77).
- The LLB Group includes the three banks Liechtensteinische Landesbank AG, Bank Linth LLB AG and LLB (Österreich) AG as well as the two competence centres LLB Asset Management AG and LLB Fund Services AG.

Corporate culture, strategy and objectives

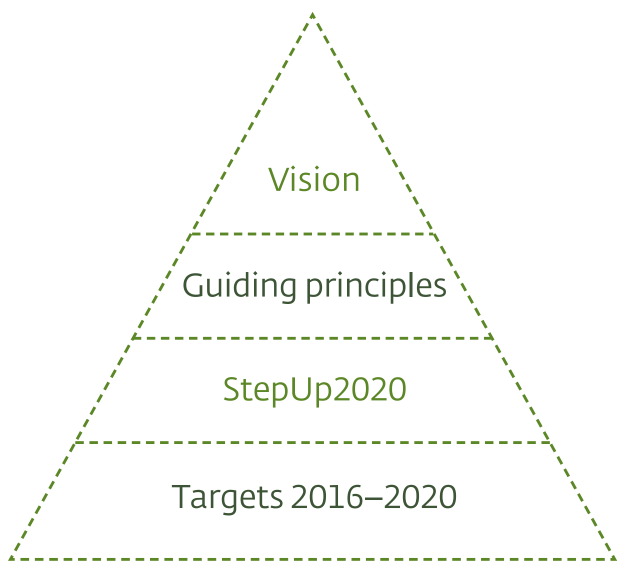
Vision and guiding principles

The LLB Group has a unique corporate culture. It is committed to a concept of banking with a binding system of values. We have enhanced our profile by redefining our vision and guiding principles in 2014 and firmly establishing them in the minds of the employees and managers.

Our **vision** is encapsulated in the sentence: "We set standards for banking with values." Our vision of banking is based on the idea that we can excel at managing material values if we have a clearly defined system of values.

The resulting **guiding principles** refer to a binding system of values, which mean the following to us:

- **Integrity** – we create clarity and stand by our word.
- **Respectfulness** – we believe in partnership and hold both clients and colleagues in high esteem.
- **Excellence** – we set standards through performance and passion.
- **Pioneering** – we play an active role in creating a sustainable future.



Vision, guiding principles, strategy and objectives drive our thinking and our actions within the LLB Group in a sustainable way. Our success depends on high-quality implementation by the Group Executive Board and all employees.

Code of Conduct

We believe that responsible, forward-looking management practices are critical to our success. As a trustworthy and respectful partner, we want to be measured by our vision, our guiding principles and our Code of Conduct, which we introduced on 1 January 2018.

We set high standards when it comes to responsibility – both for ourselves as a company and for each individual. The Code of Conduct lays down these standards in a binding set of guidelines. It reflects our values and clarifies what we expect of the Boards of Directors, the Group Executive Board, the managers and the employees. It shows how to handle potential issues or difficult situations that affect our business practices or our dealings with each other.

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

StepUp2020 strategy and objectives

Under the StepUp2020 strategy, the LLB Group embarked in 2016 on a phase of sustainable, profitable growth, after having repositioned itself under the Focus2015 strategy. In 2017, the Group Board of Directors, under the direction of the new Chairman of the Board of Directors, carried out a comprehensive review of StepUp2020 and explicitly confirmed its strategic direction.

The four core elements

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

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

Strategic success factors

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

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

Financial targets up to the end of 2020

Under the StepUp2020 strategy, the LLB Group pursues four financial targets:

Business volume > CHF 70 bn
Cumulative Group net profit 2016–2020 > CHF 500 m
Cost-Income-Ratio < 65%
Tier 1 Ratio > 14%

Value-oriented management

The LLB Group takes aspects of value orientation into consideration in all areas of the company. For example, the compensation model for the management and the majority of employees includes a component of pay that depends on the company's performance. Three years ago, we decided to introduce the Market-Adjusted Performance Indicator (MAPI) so as to be able to make a careful and objective evaluation of the management's performance. The model was developed in conjunction with FehrAdvice & Partners AG, Zurich, and is based on the results of behavioural economics research carried out by Professor Ernst Fehr from the University of Zurich.

This model enables us to evaluate the management's performance holistically and without any distortion. This is done by comparing the long-term stock return (total shareholder return, TSR) with the TSR of a comparable group. The difference between the TSR of the LLB Group and that of the comparable group gives an indication of the actual performance of the company's management.

The LLB Group's compensation model is considered exemplary in Switzerland. The Swiss Institute of Directors voted it the best salary model in 2016 of all companies listed on the Swiss stock exchange (see chapter "Compensation report", pages 103 – 111).

	Retail & Corporate Banking	Private Banking	Institutional Clients
Objectives and markets	• Market leader in Liechtenstein and leading provider in eastern Switzerland	• Leading provider in Liechtenstein as well as expansion in Switzerland and Austria • Stable position in the traditional offshore markets of Germany and the rest of Western Europe • Expansion and recognised market position in the growth markets of Central and Eastern Europe (CEE) as well as in the Middle East (ME)	• Preferential partner for fiduciaries and lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions in Liechtenstein, Switzerland and Austria
Strategic initiatives	• LLB Combi: Individual product packages • LLB Compass: 360-degree financial planning • SME Box: Refine the SME offering • Efficient credit processes • Bank branches of the future	• LLB Invest: Asset management and investment advisory services of the future • Transparent pricing model • Increase the number of client advisers	• LLB Xpert Solutions: Innovative B2B solutions • Dialogue / knowledge transfer using LLB Xpert Views • Investment Center organisation
Corporate initiatives	• Innovative services and products • Pioneering digital solutions: Video identification, mobile banking apps with Touch ID, web portal with integrated online banking • Lean management • SAQ certification for client advisers • Further excellence in distribution		

Finance and risk management

Assuming risk goes hand in hand with the business of banking. A conscious and prudent approach to dealing with risk is of paramount importance to the LLB Group. Finance and risk management is based on a sustainable approach.

Risk management

We are convinced that sustainable, profitable growth is only possible with a prudent risk culture. Consciously accepting and profitably managing risks is one of the LLB Group's core competences. We attach great importance to a prudent approach to dealing with risk at all levels of the organisation.

To avoid conflicts of interest, we have established effective and organisationally independent controlling bodies and processes. We address the issue of risk in a constructive and solution-oriented dialogue and manage it appropriately.

Risk assessment

It is essential for the protection of the reputation, the maintenance of the excellent financial strength and the securing of the sustainable profitability of the LLB Group that risks are dealt with prudently (see chapter "Risk management", pages 178 – 196). The LLB Group applies an appropriate organisational and methodological framework for assessing and managing risk.

For equity capital and liquidity, which are important reference figures for a bank, we use the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

Integrated approach

The Group Chief Financial Officer (CFO) is responsible for finance and risk management at the LLB Group. He is a member of the Group Executive Board and head of the Group CFO Division. The latter encompasses the following tasks and key areas in finance and risk management:

- **Overall bank management:** It ensures transparency at all management levels in order that costs and income can be managed in line with corporate strategy and in an efficient and timely manner. This includes medium-term planning, the annual budgeting process, the Group Management Information System (MIS) and capital management.
- **Financial management:** It includes the preparation of the financial statements in accordance with both local laws and International Financial Reporting Standards (IFRS) as well as regulatory reporting and group-wide treasury management.
- **Risk management**: It is based on risk policy and encompasses the systematic identification and assessment, reporting, management and monitoring of credit risks, market risks, liquidity risks and operational risks as well as asset liability management (ALM).
- **Credit management:** It implements efficient and effective credit processes as well as timely credit decisions according to valid directives and instructions in a risk-oriented and profit-oriented manner.
- **Legal & Compliance:** Systematic monitoring encompasses legal and regulatory changes, providing support for their implementation and carrying out subsequent controls to avoid operational, financial and reputational risk. It deals not only with legal risk, but also compliance risk, such as money laundering and market abuse, and risk related to tax issues (see chapter "Regulatory framework and developments", pages 62 – 65).

Conservative credit risk policy

The LLB Group accompanies private persons, companies, small businesses and public institutions to finance their plans for the future. The majority of the loans in 2017, i.e. 87.0 percent (2016: 86.4 %), comprised credits secured by mortgages.

The LLB Group primarily extends mortgages within the market regions of Liechtenstein, north-eastern Switzerland and the region of Zurich.

Differentiated control processes

We pursue a conservative credit risk policy. It includes the individual and differentiated evaluation of loan applications, the conservative assessment of collateral values, the individual calculation of affordability as well as compliance with standard equity requirements. The differentiated control processes help us to reliably fulfil our performance mandate (see chapter "Responsibilities for society and the environment", page 68) and to take appropriate account of risks.

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

We have developed a group-wide uniform methodology for determining the collateral value of our Lombard loans.

Independent Credit & Risk Management

Within the LLB Group, credit competences are assigned in relation to the current expertise of key employees and their experience according to different levels and credit types. The authority to grant credit has been given to Group Credit & Risk Management and the Credit Committees, with the exception of standard business transactions. Credit decisions are thus made independently of market pressures and market targets. In this way, we are able to avoid conflicts of interest and objectively and independently assess risk in individual cases.

Internal control system

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

Equity strategy

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

We simulate external influences and analyse how these affect our capital base using scenario analyses and stress tests and, where necessary, we take measures to limit risks.

Solid equity base

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

As at the end of 2017, the LLB Group had CHF 1.9 billion in equity capital (31.12.2016: CHF 1.8 billion). At 22.2 percent (31.12.2016: 21.0 %), LLB's Tier 1 ratio is well above the regulatory requirement.

The LLB Group continues to enjoy a high level of financial stability and security on account of its solid equity base, which consists entirely of hard core capital. The comfortable capital situation gives the LLB Group leeway to make acquisitions (see chapter "Strategy and organisation", page 27).

Regulatory standards

Basel III

The comprehensive reform package of the Basel Committee on Banking Supervision (Basel III) has been in effect in the EU since 1 January 2014. The regulations commit banks to larger capital buffers and set requirements for liquidity coverage. The reforms aim to improve the regulation, the supervision and the risk management of banks and, as a result, to increase the resilience of both individual banks and the banking system as a whole.

Liechtenstein, as a member of the EEA, implemented the Basel III standard with the enactment of the Capital Requirements Regulation (CRR) and the accompanying Capital Requirements Directive (CRD IV) on 1 February 2015.

Bank Recovery and Resolution Directive

The Recovery and Resolution Act (RRA) and the Recovery and Resolution Ordinance (RRO) have been in force in Liechtenstein since 1 January 2017. The EEA country has thereby transposed the Directive 2014 / 59 / EU on the recovery and resolution of financial institutions (the Bank Recovery and Resolution Directive (BRRD)) into national law. Through the RRA, among other things, Liechtenstein has provided a framework for solving the "too-big-to-fail" issue and strengthening the stability of the Liechtenstein financial system.

The RRA requires LLB, as a systemically important bank in Liechtenstein, to submit a recovery plan to the Liechtenstein Financial Market Authority (FMA). The recovery plan contains an analysis of measures determined as part of an overall bank stress test that can be taken to restore its financial position under various crisis scenarios.

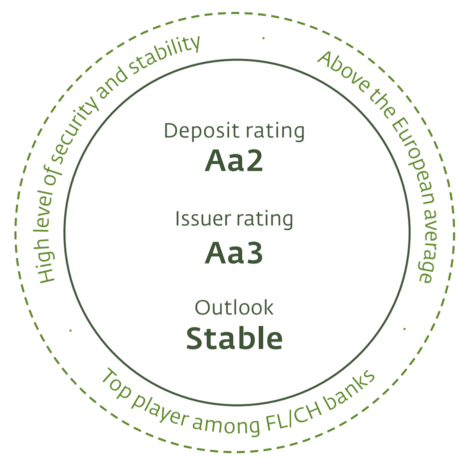
Internal capital adequacy assessment process
The Liechtenstein Banking Act (FL-BankG) requires the banks to have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis adequate equity capital. The internal capital adequacy assessment process (ICAAP)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

Internal liquidity adequacy assessment process
The Banking Ordinance (FL-BankV) requires the banks to have in place robust strategies, policies, processes and systems that enable them to identify, measure, manage and monitor liquidity risk. The internal liquidity adequacy assessment process (ILAAP) is set down in the internal regulations and guidelines and is reviewed and revised annually.

Within the framework of the ILAAP, the liquidity coverage ratio (LCR), as a binding regulatory liquidity reference figure, represents an important indicator both for liquidity risk assessment as well as liquidity risk management. At the end of 2017, a regulatory lower limit of 80 percent was applicable for the LLB Group. The minimum requirement ensures that credit institutions maintain a reasonable level of liquidity in order to cover their liquidity requirements in the case of a liquidity stress scenario within 30 calendar days. With an LCR of 126 percent (2016: 115 %), the LLB Group's ratio was substantially higher than that required under the regulations.

Rating confirms financial strength

Moody's, the rating agency, assigned a deposit rating of Aa2 to Liechtensteinische Landesbank in April 2016 and reaffirmed the rating in the spring of 2017. This underlines LLB's stability and financial strength. LLB is among the top range of Liechtenstein and Swiss banks and ranks well above the average of European financial institutions.



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

Economic environment

Despite the political uncertainties, the global economy gathered momentum in 2017. The stock markets exhibited a stable upwards trend accompanied by low volatility. Inflation was restrained while long-term interest rates were stalled at low levels.

International perspectives

Global economy

Throughout the world, the economy in almost all key countries accelerated sharply in 2017. Boosted by consumer spending and also by significantly higher investment activity, global growth was stronger than at any time since 2010. The USA, the euro zone and Japan again reported strong gains. The UK's economy started to feel the uncertainties associated with its decision to leave the EU (Brexit).

Positive signals were received from the larger emerging markets. In Asia, growth on the whole was robust. In China, the pace of economic expansion slowed only slightly even though the monetary impulses were reduced and credit growth decreased. Brazil and Russia experienced a rather halting and hesitant recovery, while in India the recent cash and tax reforms had the effect of a sharp brake on economic momentum.

For 2018 and 2019, the International Monetary Fund (IMF) expects an increase of 3.9 percent in global economic growth with Europe and Asia being the strongest drivers of the current upswing.

USA

The first year of Donald Trump's presidency saw the US economy increase the pace of its expansion. In 2017, according to data from the Department of Trade, it increased by 2.3 percent. The strengthening of the basic economic trend was largely attributable to sharp rises in investments while the robust demand from private households continued unabated.

President Trump plans to boost growth to at least three percent through a radical tax reform, among other measures. The International Monetary Fund expects an increase of 2.7 percent.

Euro zone

The euro zone economy has gained robust momentum. Eurostat, the statistics office, recorded an increase of 2.5 percent in economic performance in 2017. Both consumption and investments continued to grow. The increased investment activity is probably largely attributable to the positive global economic environment and the disappearance of some major risks caused by the Europe-friendly results of elections in France and the Netherlands, as well as stable growth in China. It is noteworthy that, in the meantime, the upswing has commenced in almost all the euro member countries.

Switzerland / Liechtenstein

According to the State Secretariat for Economic Affairs (SECO), the Swiss economy returned to a path of dynamic, broadly-based growth in the third quarter of 2017. The shock caused by the lifting of the minimum exchange rate of Swiss franc to the euro by the Swiss National Bank in January 2015, which caused a rise in the franc of around 20 percent, has in the meantime been largely absorbed. Only the construction sector still shows a tendency to weakness. As a result of international impulses combined with a slight decline in the Swiss franc, exports continued their upward trend.

On account of the weak first half year, growth in gross domestic product for 2017 posted only a moderate rise of one percent. Economists are expecting economic growth of 2.3 percent for 2018. SECO forecasts growth will be 1.9 percent for 2019.

According to the Department for Statistics, for 2017 Liechtenstein reported goods exports totalling CHF 3.4 billion – excluding trade with and via Switzerland. This represents an increase of 0.5 percent compared with 2016. In spite of the positive development in recent years, direct exports are still substantially below the level attained in 2008. Direct imports rose in 2017 to around CHF 2 billion. In comparison with the previous year, they therefore increased by one percent.

The expansion in exports is attributable to the metal and machinery sector. Exports to Asia climbed in particular, followed by those to Europe, which takes 60.9 percent of Liechtenstein's goods exports; 18.9 percent go the USA, and 18.4 percent to Asia.

Interest rates

The differences in monetary policy between the key currency regions have increased again. As expected, in December 2017 the Federal Reserve (the US central bank) raised key base interest rates for the third time in the year to a range of between 1.25 and 1.5 percent. The Fed expects that the economic conditions in 2018 will make three further interest hikes possible. It also expects the employment market to remain robust and inflation to move towards the target rate of two percent.

In comparison, the monetary policy of the Swiss National Bank (SNB), and that of the European Central Bank (ECB), are very expansive. The ECB has kept the base rate in the euro zone at the record low level of zero percent. Banks, which park money at the central bank, must continue to a pay penalty interest of 0.4 percent. The European Central Bank wants to continue its bond purchasing programme until at least September 2018; however, the scope of purchases will be halved to EUR 30 billion per month. Even though economic prospects for the euro zone are looking very positive, the ECB still thinks monetary policy impulses are necessary in order to nudge subdued inflation in the direction of the target value. According to forecasts, inflation should climb only to 1.7 percent by 2020.

In mid-December 2017, the SNB held the target range for three-month LIBOR reference interest rates at between minus 1.25 to minus 0.25 percent. Banks must continue to pay a penalty interest of 0.75 percent for their sight deposits held at the SNB. Furthermore, if necessary, the central bank remains ready to intervene on the foreign exchange market in order to prevent an upward rise in the value of the Swiss franc. With monetary policy remaining expansive, the upper target value of two percent inflation should only be reached in mid-2020. Economists are assuming that the SNB will not act before the ECB and will only raise base interest rates in the middle of 2019.

Currencies

The SNB admits that the over valuation of the Swiss franc has been reduced. At the end of 2017, the exchange rate stood at almost CHF 1.17 per euro. The Swiss franc also declined in value against the US dollar, the British pound Sterling and the Japanese yen. This development is probably largely attributable to increased confidence in the worldwide economic situation, which according to SECO has reduced the Swiss franc's attractiveness as a safe haven.

Following a period of upward revaluation in the middle of the year, the euro stabilised in the third quarter of 2017. For a long period, the strong euro was faced with a weakening US dollar. However, since October the US dollar has again gained ground slightly; its value however remained somewhat below the long-year average.

Equity markets

Thanks to the good global economic prospects and the low yields with fixed-interest bonds, equities are still attractive. The start of the second stage of Brexit negotiations should also support a further rise in European prices. In historical comparison, the volatility indices were at a record low in 2017. The markets regarded the short-time risks as being small or their occurrence as being unlikely.

The worldwide equities barometer, the MSCI World (in CHF) attained a performance of 18.5 percent in 2017. In the USA, equity prices continue to rise. The benchmark S&P 500 index soared by 22 percent to a new record high. The key German equities index, the DAX climbed by 12.5 percent in 2017. The Swiss Performance Index, Switzerland's leading stock market barometer, which depicts the overall market, gained 20 percent in value, while the country's blue chip index, the SMI, achieved a plus of almost 18 percent.

Retail & Corporate Banking

Thanks to its Retail & Corporate Banking, the LLB Group is successfully positioned as a universal bank for private and corporate clients. We are committed to tradition and innovation, and combine the bank branch of the future with the digital world.

Regionally anchored

Liechtensteinische Landesbank (LLB), founded in 1861, is the market leader in Liechtenstein in private and corporate client business. It is regarded as being the bank of Liechtensteiners, almost every resident is a client, 84.9 percent of the LLB's registered shares are owned by private individuals and companies domiciled in Liechtenstein (see chapter "LLB share", pages 50–52).

The subsidiary company, Bank Linth (BLL), founded in 1848, is the largest regional bank in Eastern Switzerland and is also the bank for people and businesses at all phases of life or stages of the business cycle. Around 10'500 shareholders form the bank's foundation and they actively participate in its development.

From Liechtenstein, for Liechtenstein

Retail & Corporate Banking is a local and regional business. Our client advisers are at home in their market regions and can assess the needs of private clients and companies. They know the history and individual aspects of the local region and its people (see chapter "Employees", page 56). This is underscored by LLB's many year's participation in the LIHGA Liechtenstein's regional trade fair, which will be held for the 40th time in 2018, as well as our 2017 marketing campaign "From Liechtenstein, for Liechtenstein – that's what we stand for".

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 Zurich, St. Gallen, Schwyz and Glarus, Bank Linth operates a total of

19 bank branches and
30 ATM locations

Clients and markets

Our Retail & Corporate Banking encompasses the savings and financing business in the domestic markets of Liechtenstein and Switzerland. This is supplemented by many kinds of client relationships with cross-border commuters from the Austrian province of Vorarlberg. The LLB Group offers the entire spectrum of banking and financial services for private and corporate clients. Traditionally, savings and mortgage lending business has played a key role for LLB. In Liechtenstein, LLB holds a market share of 50 percent of this business.

We are also the only bank in Liechtenstein to offer 360-degree financial planning and individual pension fund solutions with the LLB Pension Fund Foundation for Liechtenstein (see chapter "Responsibilities for society and the environment", pages 68–69). In eastern Switzerland, Bank Linth also offers 360-degreee financial planning, and since 2008, pension fund solutions for corporate clients with the ALVOSO LLB Pension Fund. In addition, Retail & Corporate Banking provides specific investment advice and asset management to clients having available assets up to CHF 0.5 million.

Lending business

Lending business continues to be an important business area for the LLB Group. Steadily increasing lending volumes and the low interest rate structure make this business particularly challenging. In Liechtenstein, LLB is the number one address for around 37'000 private and corporate clients. For Bank Linth lending business represents a major earnings stream in its eastern Swiss market region.

Business bank for SMEs

The LLB Group plays an important role as the bank of small and medium-sized enterprises (SMEs). These form the backbone of the economy in Liechtenstein and eastern Switzerland. By covering these companies' requirements for credit facilities and banking services, LLB and Bank Linth make a major contribution to the overall economic development of the region (see chapter "Responsibilities for society and the environment", page 66). With a share of 60 percent, LLB is the market leader in corporate client business in Liechtenstein. Bank Linth is the largest regional bank in eastern Switzerland and a leading service provider.

Partner bank for corporate clients

In 2017, the Retail & Corporate Banking Division sharpened its strategy for corporate client business and expanded its services to position itself even more clearly as a partner bank for corporate clients. LLB and Bank Linth want to be a reliable partner offering efficient solutions for companies in their regions from the time the companies are founded through the whole business life cycle. The banks offer expertise and advice on all financial topics, a comprehensive range of products, short procedures and lean, digitally supported processes.

From 2018 we are setting up teams of specialists who, after making systematic analyses, will formulate customised, needs-based, holistic road maps to enable companies to optimise their investments, to manage risks, to create perspectives for investments, to safeguard pension schemes and to support international activities. Furthermore, we shall enhance our infrastructure and improve processes to be better able to support corporate clients via digital channels and with the assistance of external partners.

Network partnerships

Since 2016, LLB has reaffirmed its local responsibility by collaborating closely with the Liechtenstein Chamber of Commerce. At the forefront of its efforts are the support and promotion of owners, successors, business leaders and senior executives from the local business community. In 2017, we began providing advice to the Liechtenstein Technopark and to start-up companies as a partner of the "Home of Innovation" initiative. Moreover, LLB is a supporting member of "digital-liechtenstein", a platform to encourage digital innovation and networking in Liechtenstein.

Digitalisation and the bank of the future

24/7 banking

The progressive digitalisation of banking business is one of the key points of the LLB Group's StepUp2020 strategy (see chapter "Corporate Center", pages 45–47). 2017 was the year of our digitalisation offensive. The goal is to enable our clients to conveniently and efficiently transact their banking business via various communication channels around-the-clock from anywhere.

Web portal with online banking

Designed in accordance with the latest security and technological standards, in February 2017 we introduced new mobile banking apps with touch ID for LLB and Bank Linth. In summer 2017, we launched a unique web portal with integrated online banking incorporating a modern layout and completely responsive features. We are therefore one of the few banks that have designed their entire online offering as a one-stop-shop – including expanded online banking. The website can be personalised and is aimed at the bank's various stakeholders. During the introduction phase, we installed a hotline for our clients and, where necessary, optimised processes.

Humans and technology

The LLB Group is convinced that the future of banking lies in a smart interrelationship between human beings and technology. Clients are increasingly using various channels – telephones, smartphones, tablets, PCs and bank branches – in parallel. And even digital natives want to have the expertise of their bank adviser when dealing with complex financial issues. To enable us to efficiently fulfil our clients' requirements, our omni-channel strategy incorporates a new type of bank branch concept.

Bank of the future

The trust of the people and the business community is the LLB Group's core capital, which it carefully nurtures. The bank branches of Liechtensteinische Landesbank and Bank Linth offer a bundle of services such as expert advice, competent client care and needs-focused sales.

For two years now Bank Linth's branch in Sargans has been combining traditional and new services to provide a new kind of experience. Since June 2017, the headquarters of Bank Linth in Uznach have reflected this "bank of the future" concept. In a multi-media client zone the obtaining of personal advice becomes an inspiring experience, while the self-service possibilities for carrying out bank and financial transactions set new standards of efficient service. The branch staff have become hosts, advisers, supporters, agents and coaches.

Investments

From 2016 up to 2020, investments of around CHF 30 million are planned for group-wide innovations and infrastructure projects to expand digital channels and services. Bank Linth has planned investments for the modification of all nineteen of its bank branches according to the "Bank of the Future" model. Liechtensteinische Landesbank will also invest in the redesign of its three bank branches. In 2018, the Balzers branch will be modified in line with changed client behaviour. From 2019, the client bank counters in Vaduz and in 2021 the Eschen branch will follow suit

Customer Service Center

As the interface between online and offline services, the Customer Service Center (CSE) has been the central hub for 64'000 retail clients for four years. Almost 26'600 of them are online banking clients and over 8'700 are mobile banking clients. In 2017, this dedicated team answered around 127'000 telephone calls, about 10'000

This page includes, inter alia, the following GRI standard indicators (2016 version): 102–43, list of all GRI indicators shown in the report can be found in the GRI Content Index on page 75.

e-mails and 4'000 bank messages. It also dealt with 64'000 enquiries and questions. In 2017, the CSE was an important point of contact for clients during the changeover to the new, web-integrated online banking system.

The department further broadened and deepened its knowledge and competence by attending training courses on, among other subjects, the automatic exchange of information (AIA) and the EU "Markets in Financial Instruments Directive" (MiFID II).

Products and services

In the last two years, the LLB Group has made substantial investments in innovative products and services. Accordingly, in 2017 we were able to successfully position ourselves on the market and stand out from peers.

Individual product selection

Our "LLB Combi / Bank Linth Combi" options enable our private clients to design their own individual bank relationship. Using an online configurator, the client can select the services which he requires, and he pays only for what he uses. This unique model fulfils client requirements for individuality and clarity in banking business. For its online configurator the LLB Group was awarded the bronze prize of the "Best of Swiss Web" in 2017, the oldest digital award in Europe.

360-degree financial planning

The LLB Group has set itself the goal of accompanying its clients at every stage of life or phase of the business cycle, and offering solutions for all financial questions. In 2017, we expanded our 360-degree financial planning facilities under the designation "LLB Compass" – and also under "BLL Compass" in Switzerland (see chapter "Responsibilities for society and the environment", page 68).

For young people

LLB and Bank Linth are creating new perspectives for young people in Liechtenstein and eastern Switzerland by becoming a coach for questions relating to financial knowledge in the social media. By offering the "young Liechtenstein" and "young Linth", for short "youli", banking services, LLB and Bank Linth are also successively expanding their strong market position in the youth segment. In 2017, almost 12'600 young people took advantage of our range of accounts.

Saving with strategy funds

With its initiatives, the LLB Group offers all generations of clients at every stage of life a bridge between financing and investing. Private investors benefit from the acknowledged investment competence of LLB Asset Management (see chapter "Institutional Clients", page 42). Precisely in times of low interest rates, the award-winning LLB strategy funds prove to be a contemporary method of long-term saving and wealth appreciation.

Genuine client focus

With its StepUp2020 strategy, the LLB Group has set itself the goal of gaining more time for providing individual care for its clients and further enhancing the quality of advice they receive.

Lean management

The Lean Management Group Programme makes a significant contribution to standardising processes as far as possible (see chapter "Corporate Center", page 47) and to aligning our company even more closely with clients' requirements. In the Retail & Corporate Banking Division we have fundamentally reviewed and revised our lending processes during the last two years and substantially reduced the time needed to process a loan application, i.e. by 30 percent in the case of a standard mortgage loan, while at the same time improving the process quality by 30 percent.

Following the completion in 2017 of the lean transformation of the Eschen bank branch, the Customer Service Center and the financing units are now to focus on lean management. We intend to improve the efficiency of the teams and the processes by motivating the staff concerned to initiate and actively embrace change.

Client advisory bank

Client relationships based on trust and a true understanding of clients and their needs are the ideal prerequisites to continue inspiring our clients in future. The client adviser plays a central role here.

Up to the end of 2017, 34 client advisers of the Retail & Corporate Banking Division had already completed the certification programme in accordance with the standards of the Swiss Association for Quality (see chapter "Employees", page 60). By the end of 2020, all 178 advisers and staff having client contact will be certified. This guarantees the consistent high quality of the LLB Group as a client advisory bank.

Business segment result

Interest differential business, which comprises the largest part of earnings in private and corporate banking, posted a very pleasing development. The pressure on margins in deposits and mortgage business was more than compensated for by growth in lending business. The success of new product ranges and intensified client activity were reflected in income from fees and commissions as well as trading income. Operating expenses remained stable in spite of the investments made in the bank branch and distribution network.

The continuing demand for real estate financing led to an risk-aware increase in loans to clients of over 6 percent to CHF 10.3 billion in the Retail & Corporate Banking segment. The business volume rose by 3.6 percent to CHF 18.8 billion. The segment posted inflows from private and corporate clients in the domestic markets of Switzerland and Liechtenstein. Isolated outflows of low-margin deposits adversely impacted net new money.

Segment reporting

in CHF thousands	2017	2016	+ / − %
Net interest income	87'439	84'077	4.0
Credit loss (expense) / recovery	833	− 3'014	
Net interest income after credit loss (expense) / recovery	88'271	81'063	8.9
Net fee and commission income	30'210	29'467	2.5
Net trading income	11'441	10'532	8.6
Other income	1'622	1'813	− 10.5
Total operating income	**131'545**	**122'875**	**7.1**
Personnel expenses	− 29'886	− 31'679	− 5.7
General and administrative expenses	− 3'544	− 2'364	49.9
Depreciation and amortisation	− 40	− 68	− 41.2
Services (from) / to segments	− 49'117	− 46'989	4.5
Total operating expenses	**− 82'587**	**− 81'100**	**1.8**
Segment profit before tax	**48'957**	**41'775**	**17.2**

Performance figures

	2017	2016
Gross margin (in basis points) *	70.8	70.7
Cost-Income-Ratio (in percent) **	63.2	64.4
Net new money (in CHF millions)	− 100	334
Growth of net new money (in percent)	− 1.2	4.2

* Operating income (excluding credit loss expense) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

Additional information

	31.12.2017	31.12.2016	+ / − %
Business volume (in CHF millions)	18'763	18'116	3.6
Assets under management (in CHF millions)	8'449	8'435	0.2
Loans (in CHF millions)	10'314	9'681	6.5
Employees (full-time equivalents, in positions)	193	202	− 4.5

Private Banking

Wealthy private clients and entrepreneurs value three things about the LLB Group's Private Banking: the stability and security of our bank, the level of service quality, and outstanding investment performance.

Stability and security

With 156 years of history, the LLB Group has a long tradition as a private bank. Wealthy private clients and entrepreneurs trust in our experience and value us as a reliable partner, who understands their needs and wishes. Furthermore, there is the certainty of being with a bank that is regarded as being the embodiment of stability and security. For example, the LLB Group has been one of the best capitalised universal banks in Europe for years (see chapter "Finance and risk management", page 29). Moreover the Principality of Liechtenstein, as the majority shareholder, is one of only eleven countries in the world to possess an AAA rating (see chapter "Responsibilities for society and the environment", page 68).

High level of service quality

Integral solutions from one source

Wealthy clients attach great value to mutual trust, lateral and forward thinking as well as realistic judgement. Our private banking advisers take the time to understand the financial objectives and the life situation of their clients in order to be able to develop the optimum investment strategy for each individual. Our holistic advisory services are clearly structured and transparent starting with analysis, going on to strategy, customised implementation and regular reviews.

Asset management and investment advice of the future

The LLB Group takes an innovative and flexible approach to facing the challenges of the era. Our investment advisory services ideally combine the investment competence of our asset management services with the latest information technology and individual advisory models.

The hybrid "LLB Invest" investment model takes advantage of the strengths of two worlds: the speed, precision and reliability of technology coupled with the background knowledge, the wealth of experience and the creativity of our client advisers, who formulate profitable technical solutions for our clients.

Individual advisory models

We offer our clients outstanding investment solutions tailored to suit their individual wishes. Providing personal care and support to clients during the process of wealth appreciation are of central importance to us. We use systematic monitoring to ensure the safety of investments and the optimisation of the performance of client portfolios.

In 2017, we supplemented the two existing "LLB Invest" advisory models with the new "LLB Basic" model to be able to offer all investors the best care. With this further focus on clients, the LLB Group is complying with the EU "Markets in Financial Instruments Directive", (MiFID II), which came into effect in January 2018.

Client adviser certification

Trust is the core driver of the financial services industry. It is our client advisers, who create this trust. Accordingly, we make major investments in enhancing their knowledge. Therefore, in this and the following years all private banking client advisers and assistants will complete the certification programme according to the standards of the Swiss Association for Quality (SAQ) (see chapter "Employees", pages 60–61).

Outstanding investment performance

Investment competence

In competitive comparison, our Private Banking is distinguished by outstanding investment performance. Awards received in the past and in 2017 demonstrate that the investment competence of our asset management is one of the great strengths of the LLB Group (see chapter "Institutional Clients", page 42).

Broad diversification

LLB Asset Management possesses excellent expertise, and using systematic, transparent investment processes creates consistent added value for our clients. This applies both for asset management and for investment funds. The range of possibilities is extremely extensive and enables a broad diversification of capital investments. In 2018, the LLB Group is adding passive asset management mandates in various investment strategies and passively managed equity funds to its product offering.

International presence – local ties

Through the brands "Liechtensteinische Landesbank" and "Bank Linth", the Private Banking Division defines its international presence and 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, Switzerland and Austria. We are present internationally in Vaduz, Zurich-Erlenbach, Geneva, Vienna, Abu Dhabi and Dubai, as well as locally through 19 branches of Bank Linth in eastern Switzerland and three LLB branches in Liechtenstein.

Products and services

The Private Banking Division supports wealthy clients with commitment, expertise, outstanding investment competence and a sound understanding of their goals and concerns. Customised to suit specific client segments, we offer investment counselling, asset management, asset structuring, financing facilities as well as financial and retirement planning. This makes us the preferred partner for wealthy private clients as well as entrepreneurs.

Innovative investment solution

Asset management and investment advice are core elements of private banking. With "LLB Invest" and "Bank Linth Invest" the LLB Group offers a highly professional and innovative application. Our advisory models "Basic", "Consult" and "Expert", as well as the "Comfort" asset management application place the emphasis squarely on the client's experience. This pioneering solution supports our active client care concept, the systematic investment process enables analysis and optimisation of the client portfolio at any time.

The volumes with asset management and investment advisory mandates have risen since the introduction of "LLB Invest" within one and half years by CHF 1.6 billion, the number of mandates increased by 1'000.

360-degree financial planning

The LLB Group is the only bank in Liechtenstein to offer 360-degree financial planning and continually expand this service. With its "LLB Compass" and "Bank Linth Compass" services, it supports private clients and entrepreneurs, at all stages of life or the business cycle, to achieve 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 68).

Transparent pricing model

All three banks in the LLB Group completely forego retrocessions on their own and external investment funds. 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. The LLB in Vienna has adopted this pioneering model as the first bank in Austria to do so.

Focus on clients

The close relationship between clients and experienced client advisers, who recognise what private clients and entrepreneurs need at the various stages of life or phases of the business cycle, is a special attribute of the LLB Group. All our private banking advisers nurture close ties with clients in the local target markets, speak their clients' language and know their individual wishes and needs (see chapter "Employees", page 59).

Client satisfaction

In August 2017, the Private Banking Division completed its first wave of lean management measures, which were aimed at gaining more qualitative time for our clients. The private banking teams in Liechtenstein, Switzerland and Germany / Austria have realised improvements in the areas of clients, productivity and employee activities. This results in even faster and better quality services for our clients.

Client satisfaction is the crucial factor in order to remain competitive over the long term. We rely not just on feedback from our client advisers in order to measure client satisfaction. A market study carried out in 2016 showed that LLB as an investment bank received a top ranking from almost all the wealthy clients surveyed in Liechtenstein (see chapter "Brand and sponsoring", page 54).

Market regions

Liechtenstein, Switzerland and Austria
Liechtenstein, Switzerland and Austria, as financial centres, possess a high potential to attract investors, who are seeking safety and stability for their investments. We posted gratifying client inflows both in private banking in Liechtenstein and in private banking with Swiss clients in 2017.

In the meantime, our bank in Vienna has established itself as a reliable partner for private banking clients in Austria as well as Central and Eastern Europe. It reached break-even point in 2014 after only five years of development and continued its success story in 2017. Thanks to very pleasing growth figures and good investment performance, assets under management climbed to a record high. Following the purchase of Semper Constantia Privatbank AG – as announced on 22 December 2017 – LLB is on the way to becoming one of the leading private banks, both in institutional business and private banking in Austria.

Traditional cross-border markets of Germany and other parts of Western Europe
Germany, Europe's largest private banking market, continues 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 believes there is further potential for growth in the Central and Eastern European EU states and in the key market of Russia. In addition to the improved economic prospects in the region, we have two key success factors, namely, the stability and security of the LLB Group, as well as the specific market and product experience of our client advisers and investment specialists in Zurich, Geneva, Vaduz and Vienna.

Middle East
In 2017, the LLB Group's Private Banking proved once again to be very successful 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. We are one of the few foreign banks that provides clients with access to the stock markets in Dubai and Abu Dhabi.

Cross-border banking

The international business operations of the LLB Group lead to regulatory complexity in cross-border banking. The LLB Group has set a clear focus on strategically and economically important countries. It is of central importance that strict compliance with prevailing local regulations is maintained. The LLB Group employs a system of internal directives and rules, as well as robust compliance processes and intensive training, to ensure that its employees comply with the regulations of the individual target countries during their cross-border activities.

Tax compliance of clients

The LLB Group's business model aims at its clients meeting tax compliance requirements (see chapter "Regulatory framework and developments", pages 62–65). In line with the tax compliance strategy of the Principality of Liechtenstein, the LLB Group has largely completed the transformation process in the field of taxation with EU and international clients. We apply a risk-based approach in dealing with new and existing clients.

Business segment result

Operating income rose by over 19 percent to CHF 107.7 million. This substantially exceeded the expansion of operating expenses, which increased in line with strategic requirements. In interest business, the Private Banking segment benefitted from rising USD interest rates and the pleasing increase in loans to clients. Fee and commission income benefitted from more intensive client activities, new product and pricing models, as well as the expansion in client assets due to innovative investment advisory solutions. The expansion in personnel in client advisory services resulted in higher costs. The segment result before tax rose sharply by over 40 percent to CHF 45.5 million.

The Private Banking segment posted consistent net new money inflows in the domestic and growth markets. Both client assets under management and loans to clients increased. This resulted in an expansion of business volume by 8.5 percent to CHF 16.0 billion. In a challenging market environment, the gross margin rose by around seven basis points.

Segment reporting

in CHF thousands	2017	2016	+ / − %
Net interest income	25'992	15'695	65.6
Credit loss (expense) / recovery	0	750	−100.0
Net interest income after credit loss (expense) / recovery	25'992	16'445	58.1
Net fee and commission income	72'825	65'390	11.4
Net trading income	8'826	8'955	−1.4
Other income	8	2	300.0
Total operating income	**107'651**	**90'792**	**18.6**
Personnel expenses	−32'200	−30'631	5.1
General and administrative expenses	−2'650	−3'576	−25.9
Depreciation and amortisation	0	0	
Services (from) / to segments	−27'344	−24'384	12.1
Total operating expenses	**−62'195**	**−58'591**	**6.2**
Segment profit before tax	**45'456**	**32'201**	**41.2**

Performance figures

	2017	2016
Gross margin (in basis points)*	70.3	63.6
Cost-Income-Ratio (in percent)**	57.8	64.6
Net new money (in CHF millions)	172	173
Growth of net new money (in percent)	1.3	1.3

* Operating income (excluding credit loss expense) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

Additional information

	31.12.2017	31.12.2016	+ / − %
Business volume (in CHF millions)	16'007	14'754	8.5
Assets under management (in CHF millions)	14'316	13'283	7.8
Loans (in CHF millions)	1'691	1'471	15.0
Employees (full-time equivalents, in positions)	161	153	5.5

Institutional Clients

As partners we seek a dialogue based on trust with our institutional investors. We are pleased to offer them our investment competence and expertise in a comprehensive and open manner. We consistently view the financial world from the perspective of our 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.

Asset Management	Specialist in asset management and investment fund management
Fund Services	Fund competence centre
Financial Intermediaries	Partner for professional clients

Transfer of knowledge

Identifying client benefits

For us, our open, partner-like dialogue with our clients makes the decisive difference. In client and round table discussions with structured, follow-up feedback processes, we question and analyse what is important for institutional clients. This ensures that we can offer innovative solutions in those areas where support is actually desired. In turn, this strengthens the network and ensures an ongoing improvement process.

Online platform

Since 2013, the Institutional Clients Division has been making available its knowledge to clients in the areas of asset management, law and taxation via the "LLB Xpert Views" online platform. This provides institutional clients with a transparent and comprehensive overview of the latest developments.

Round table discussions

In exclusive round-table discussions LLB's experts and investment specialists regularly provide the latest information about current topics. The focus here is on issues which concern our clients in practice such as the new EU directive on "Markets in Financial Instruments" (MiFID II), which came into force on 3 January 2018, or the revised Liechtenstein Due Diligence Law. In 2017, a dozen such round table discussions were held, including once again three "LLB Xpert Views Specials", in 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.

Exchange of information in the Liechtenstein financial centre

The transfer of knowledge and the exchange of information are essential in order to achieve social and economic progress both for the LLB Group and the Liechtenstein financial centre.

As a member of the Association of Independent Asset Managers in Liechtenstein, LLB Asset Management AG, a Group company, is also a committed partner in the development of the financial centre. At the same time, another Group company, LLB Fund Services AG, as a member of the Executive Board of the Liechtenstein Investment Fund Association, actively participates in shaping the business conditions of the Liechtenstein fund centre.

Asset Management

LLB Asset Management AG takes a central position within the LLB Group. This specialist for investment management and investment funds manages future-oriented, high-performing products and supports all three market divisions with investment competence in their target market regions (see chapter "Strategy and organisation", page 25).

The LLB Group's asset management can call on excellent expertise. It continually invests in the further development of analyses based on quantitative value models, and especially in the equities model to achieve good investment performance. In both asset management and investment advisory business, the LLB Group foregoes retrocessions for its own and external funds.

International quality standards

The LLB Group attaches great importance to carrying out its asset management in accordance with international standards. Accordingly, our asset management has been GIPS certified for over 15 years, i.e. it adheres to a compliance standard in line with the "Global Investment Performance Standards", a method of calculating and presenting investment performance that is recognised throughout the world. The GIPS standards are based on the complete disclosure and comparable presentation of investment results. The latest scientific research and findings in relation to performance measurement and presentation are integrated fully in our processes. These international quality standards ensure that clients receive fair and transparent investment reports.

Awards

In a long-term competitive comparison, the most important track record of every asset manager, LLB consistently achieves top rankings with its strategy funds. In 2018, LLB also received three Lipper Fund Awards Switzerland. For its range of bond, equities and strategy funds licensed for Switzerland, our Asset Management received the award for being the best asset manager among the large group of smaller asset managers in the last three years. In 2017 / 2018, LLB won the following awards:

- **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 2017**: First place in Europe and Germany (three awards in four years);
- **Umbrella Fund Award** of "GELD" 2017 , the Austrian journal for financial professionals (13 umbrella awards in six years);
- **Hedge Fund Awards 2018** of the magazine "Acquisition International (AI)": "Best Portfolio Manager – Liechtenstein" and "Best Alternative UCITS Fund" (two awards in two years).

LLB investment funds – EU-compatible

All LLB funds are Europe-compatible. This means they comply with the UCITS V EU directive (Undertakings for Collective Investment in Transferable Securities). And they pursue the philosophy of strict diversification. The reference attributes of every fund, such as strategy, costs and risk profile, can be simply and clearly read on the monthly Fund Factsheet. Around 30 retrocession-exempt LLB funds are actively managed by experienced fund managers and are licensed for distribution in Liechtenstein, Switzerland, Austria and Germany.

Good performance and low costs have seen the volume invested in LLB funds grow continually in the last six years. At the end of 2017, it stood at CHF 5.2 billion.

Asset management

With six different investment strategies from "Fixed Interest" to "Equities" in the reference currencies CHF, EUR and USD, LLB enables the broad diversification of capital investments.

The volume of assets under management at the end of 2017 totalled CHF 5.9 billion.

Client requirements are always at the forefront in the LLB Group. Accordingly, we shall expand our range of offerings by including passive asset management mandates and passively managed equity funds.

Fund Services

The Fund Services Business Area is the fund competence centre of the LLB Group and an important earnings pillar having growth potential. In 2017, thanks largely to net new money inflows, assets under management climbed to CHF 13.9 billion.

Private labelling

LLB Fund Services AG is one of the three largest fund service providers in the Liechtenstein financial centre and has established a name for itself as a specialist in the field of private label funds. Depending on the client's requirements, private label funds can be structured according to Liechtenstein or EU law. These fund solutions are very individual and are ideally suited for efficient asset management and as structuring alternatives for large volumes of assets. Irrespective of whether a fund is set up for a limited group of investors or is offered to the public, the level of investor protection is the same.

Established according to the concept of an "all-in-one shop", Fund Services offers a comprehensive range of services. We plan and set up made-to-measure funds both in-house and for independent asset managers, family offices and other promoters. We structure and manage these vehicles and ensure state-of-the-art risk management.

LLB as a custodian bank

At the end of 2017, LLB was serving as a custodian bank for 255 funds and again extended its position as the market leader in Liechtenstein. Twenty years ago, LLB took over the function as the custodian bank for the first private label funds in Liechtenstein. As a pioneer in this business, it has acknowledged experience and expertise in the management and administration of complex fund mandates having various strategies and asset classes.

EU passport for UCITS and alternative investment funds

With a share of 0.3 percent of the fund market, Liechtenstein is one of Europe's fund boutiques. Thanks to its membership of the EEA, however, it is the only country having unlimited access to two economic areas, i.e. Switzerland and the European Union.

On account of the UCITS (2011) and AIFM (2013) laws, which are based on European legislation, Liechtenstein alternative investment funds (AIF) and alternative investment fund managers (AIFM), as well as UCITS funds, enjoy unlimited access to the 28 EU and EEA / EFTA states.

Growth potential in Switzerland

The new double taxation agreement (DBA) between Liechtenstein and Switzerland came into effect in January 2017. As a custodian bank, and the first financial institute in Liechtenstein, LLB in close cooperation with LLB Fund Services AG, can enable its clients to obtain a refund of Swiss withholding tax. This opens up new, interesting asset structuring possibilities for Swiss clients.

In February 2018, Liechtensteinische Landesbank signed a purchase agreement to acquire the shares of LB(Swiss) Investment AG, Zurich. This takeover, in line with its strategy, provides the LLB Group with access to the Swiss funds markets and therefore enables a strong expansion of its fund business. In future, it will conduct this business from out of three locations, namely, Liechtenstein, Austria an Switzerland.

Financial intermediaries

The team responsible for financial intermediaries offers independent asset managers, fiduciaries and insurance companies comprehensive service and care so that together they can create suitable solutions for the intermediaries' end clients. At the same time, we are a reliable partner for public institutions and pension funds when they need asset management and payment services.

Innovative B2B solutions

With the goal of enhancing competitiveness and improving efficiency, we are focusing on preferred partners and their networks. To strengthen our long-term collaboration with intermediary clients, LLB has offered innovative and exclusive B2B solutions under the label "LLB Xpert Solutions" since 2016.

Voice-of-customer analysis

To enable more time to be gained for clients, in spite of increasing regulatory and administrative demands, the LLB Group has launched a lean initiative (see chapter "Corporate Center", page 47). The Financial Intermediaries Business Area has been involved in the lean management process since September 2017 to gain more time for clients. For this purpose, it is essential that we know the wishes, expectations and ideas of our clients. Accordingly, in 2017 we utilised the "voice-of-customer" (VOC) method to expand our understanding of clients' requirements.

Within the scope of the VOC analysis we surveyed trust companies and independent asset management companies of various sizes in Liechtenstein and Switzerland. The results of the survey confirmed our assumption that continued and trustworthy communication, LLB investment competence, digitalisation, as well the transfer of knowledge regarding regulatory and investment topics are of central importance.

To further strengthen this transfer of knowledge, at the start of 2017 we set up our own pre-compliance function at the interface to the client advisers. This enables us to pursue our objective of carrying out clarifications quickly and more efficiently so that our client advisers have more time for their clients.

Digital client interfaces

The advance of digitalisation in asset management and trust business is unstoppable. Mounting complexity and stricter demands in the legal and regulatory fields call for an innovative and efficient infrastructure. Digitalisation, standardisation and automation must be interlinked in an optimal manner.

In 2018, we shall make targeted investments in digital interfaces. We shall strive to provide clients with optimum work processes and support them in efficiently processing data.

Certified client advisers

The LLB Group is convinced that success in future will depend on an intelligent combination of human and technological resources. Therefore we are investing in enhancing the knowledge of our employees. In 2017, five client advisers and assistants completed the training programme in accordance with the standards of the Swiss Association for Quality (SAQ). By 2020, all 35 advisers and assistants will have completed the programme (see chapter "Employees", pages 60).

Moreover, in 2017, training courses were held on key regulatory issues, e.g. on the implementation of the fourth EU anti-money laundering directive, on the money transfer ordinance in the Liechtenstein Due Diligence Law, on the implementation of the automatic exchange of information in taxation matters, and on the EU MiFID II directive (see chapter "Regulatory framework and developments", pages 64).

Business segment result

The segment profit before tax climbed to a new record, gaining over 20 percent to reach CHF 56 million. Operating income improved, especially due to the good result achieved with interest differential business. This benefitted from higher revenues from investments in foreign currencies. Income from fees and commissions as well as trading business exceeded the previous year's figure thanks to active marketing measures and increased client activity. Allowances for credit losses included the release of a position amounting to CHF 7.5 million. Operating expenses increased – although general and administrative expenses remained the same – on account of the expansion of personnel in line with the bank's strategy and higher internal settlements.

Client assets under management rose by 11.3 percent to a new record level of CHF 27.5 billion. Positive inflows with custodian bank funds contributed in particular to the gratifying net new money inflows totalling around CHF 400 million. In spite of an extremely competitive environment the segment was able to maintain its gross margin.

Segment reporting

in CHF thousands	2017	2016	+ / − %
Net interest income	14'725	10'300	43.0
Credit loss (expense) / recovery	7'500	1'275	488.2
Net interest income after credit loss (expense) / recovery	22'225	11'575	92.0
Net fee and commission income	56'201	55'795	0.7
Net trading income	11'138	10'538	5.7
Other income	2	3	− 33.3
Total operating income	**89'566**	**77'911**	**15.0**
Personnel expenses	− 17'709	− 17'041	3.9
General and administrative expenses	− 2'507	− 2'538	− 1.2
Depreciation and amortisation	0	0	
Services (from) / to segments	− 13'369	− 12'167	9.9
Total operating expenses	**− 33'585**	**− 31'746**	**5.8**
Segment profit before tax	**55'981**	**46'165**	**21.3**

Performance figures

	2017	2016
Gross margin (in basis points) *	30.7	30.8
Cost-Income-Ratio (in percent) **	40.9	41.4
Net new money (in CHF millions)	397	− 568
Growth of net new money (in percent)	1.6	− 2.3

* Operating income (excluding credit loss expense) relative to average monthly business volumes.
** Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

Additional information

	31.12.2017	31.12.2016	+ / − %
Business volume (in CHF millions)	27'790	25'227	10.2
Assets under management (in CHF millions)	27'485	24'704	11.3
Loans (in CHF millions)	305	523	− 41.7
Employees (full-time equivalents, in positions)	90	86	4.8

Corporate Center

The Corporate Center bundles and controls the central functions of the LLB Group. As the internal service provider and client-centric entity, it enhances the value chain and ensures the internal and external provision of the LLB Group's digital services.

Quality of services

The Corporate Center encompasses the Group CEO (see chapter "Strategy and organisation", page 25), Group CFO (see chapter "Finance and risk Management", page 28) and Group COO Divisions. It initiates, coordinates and monitors group-wide business activities, processes and risks. Furthermore, it facilitates corporate development including information technology and improves the efficiency of processes as well as the quality of services. Fully focused on the requirements of the operative 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 LLB Group's StepUp2020 strategy. In 2017, the priority was placed on the digitalisation of banking business and the Group, as well as the optimisation of the organisation in line with the principles of lean management.

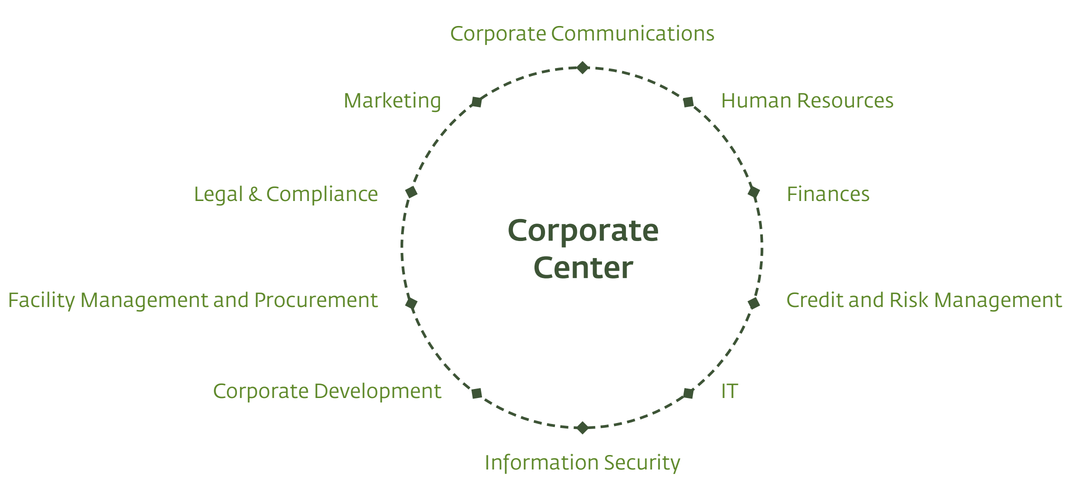
Digitalisation of banking business

In expanding its digital channels and services, within the scope of its omni-channel strategy, the LLB Group is investing a total of around CHF 30 million in innovation and IT projects up to the end of 2020. The goal is to combine the physical and digital contact points such as bank branches, telephony, mobile banking, web portal, online banking and LLB Quotes, into a seamless client experience.

Expansion of online services

In February 2017, we introduced new mobile banking apps with touch ID for LLB and Bank Linth – designed in accordance with the latest security and technological standards.

By summer 2017, the LLB Group had completely revised the content and technology of its websites for LLB and Bank Linth including the seamless integration of its Online Banking (see chapter "Retail & Corporate Banking", page 34).



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

We have decided in favour of photoTAN technology to facilitate authentication. It operates in line with the latest research in user-friendliness and data encryption, and complies with the highest security standards. It incorporates a completely responsive design and clients can access LLB / BLL online banking services on our web portal from their smartphones, tablets or desktop computers. These modifications provide us with an excellent basis on which to continually expand and refine our online services and make them even more attractive for our clients.

During the year under report, the number of online banking agreements with LLB rose by 5.6 percent to 26'596, and those with Bank Linth by 3.2 percent to 18'894.

The number of mobile banking registrations with LLB increased by 39 percent to 8'754, and those with Bank Linth by 35.4 percent to 4'214.

Efficient payment systems in Switzerland

Our new Online Banking has already enabled us to carry out important adjustments to payment systems so that they conform to European standards.

With the introduction of the Single Euro Payments Area (SEPA) in 2014, cashless payment transfers were standardised in Europe. By 2020, Switzerland – and therefore Liechtenstein in parallel – will change over to the ISO 20022 international standard for the electronic exchange of data in the financial services industry. The platforms of the banks, SIX Paynet, and Post Finance are to be amalgamated. Instead of ten different payment slips, in future there will be one QR payment code.

The changeover will mainly affect the IT interfaces between financial institutes as well as all companies having interconnected payment transfer systems. In 2017, the LLB Group carried out intensive preparations for the simplification and automation of payment processes.

Support for corporate clients

The LLB Group has about 2'000 such clients as well as large clubs, associations and public institutions, which must modify their systems. It supports its corporate clients in digitalising their processes by means of efficient interfaces such as "LLB / BLL Connect" and the "Electronic Banking Internet Communication Standard" (EBICS). Our clients have been using the EBICS standard since 2016; the updated Connect interface will be available from mid-2018.

E-bill / QR-bill

LLB and Bank Linth plan to introduce E-bills provisionally during the second quarter of 2018. This will enable invoices to appear directly in the SIX LEON portal, where they can be checked and approved for payment. The last large-scale changeover will commence at the beginning of 2019. Here too, the LLB Group is supporting its corporate clients in digitalising their processes so that they send the new QR-bill with payment part to their end clients.

New rules in the EU payment transfers market

The harmonisation and digitalisation of the European payment transfers market represents an important subject for LLB. As an EEA member state, Liechtenstein will implement the EU PSD II payment services directive in 2018. The new regulations take into consideration the stricter data protection requirements and the security of electronic payments.

PSD II allows new payment service providers such as FinTech companies access to the market, which should increase competition and strengthen innovation. The directive stipulates that banks must permit third-party providers access to clients' accounts if clients desire this. A direct interaction with the bank at which the account is held is no longer necessary. At LLB the necessary adjustments to enable the implementation of PSD II are planned for 2018.

Innovation partnerships and management

In future, the collaboration between banks, IT service providers and FinTech companies in developing the "digital bank" will play an essential role. Back in 2016, the LLB Group utilised just such a strategic innovation partnership to introduce an investment advisory model on the market under the designation "LLB Invest / Bank Linth Invest". In 2017, we also collaborated with various external business partners.

Internal digitalisation

In order to enhance its agility, innovative power and client experience in the digital age, the LLB Group has set digitalisation, both inside and outside the company, as a strategic priority. Since 2017, the development of modern workplace and communications technologies has been at the forefront of the Group's plans. The "team@work" Group project planned aims to improve collaboration, the exchange of knowledge and the way information is processed.

This comprehensive analysis of requirements is based on an online survey of all employees, on employee workshops, as well as interviews with specialists and local representatives. The objective is to draft an appropriate strategy, possible solutions and a roadmap for the digital workplace of the future by mid-2018.

Digitalisation and data protection

We not only think digitally, we also give intensive consideration to the new risks that digitalisation brings with it. For example, personal data – and therefore access to services – are increasingly stored and interlinked in cyberspace. The interrelationship between human beings, processes and technologies is therefore an essential prerequisite for data protection.

Fraud detection system

In full awareness of how vitally important the security of systems and data are, we have designed future software architecture accordingly. Working in close cooperation with a technology partner, we have developed a broad-based, self-learning fraud detection system for payment systems to counteract internal and external threats.

Information security

Information processing systems, which ensure confidentiality, availability and integrity, provide protection against threats and dangers, also help to prevent damage and minimise risks. The Group Information Security Department formulates, implements and maintains our information security programme. The principles and guidelines on which this is based are specified in directives that are binding throughout the Group.

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

Raising awareness among employees

Dealing responsibly with client data and information is an integral part of LLB's corporate culture. In 2017, monthly training courses for new employees were held in Liechtenstein, at Bank Linth and at LLB Austria in Vienna. Refresher training courses are planned in 2018 for 400 employees, who have worked at LLB for longer than four years.

In November 2017, LLB introduced a new learning game for smartphones, which also raises employees' awareness of the importance of cyber security with its gamification approach. Thanks to IT security training courses, employees who have less affinity with technology, use a fun learning method to find out how to deal with themes such as "phishing", "DDos attacks" and "social engineering". LLB has therefore adopted an initiative of the Swiss IT Leadership Forum. It is a member of the ICT Switzerland.

Lean Management

The LLB Group believes that the key to success lies both in improvements through innovation and in the continual development of the company. In line with the StepUp2020 strategy, the Group COO Division is firmly establishing a lean management culture at the LLB Group. For this purpose five specialists support our teams.

Progress achieved in increasing efficiency, optimising IT systems and simplifying structures supports growth and profitability. Our lean initiatives mean that the demands made on our employees are changing; solution-focused and client-centric thinking and action are becoming more and more important.

Operational excellence

The new Operational Excellence Department successfully carried its first lean project in 2017. Its goal is to establish a permanent culture of ongoing improvement and refinement at the company. In our three market divisions we want to gain more time for our clients and therefore for enhancing the quality of advisory services.

Lean management in the market divisions

In all three market divisions our clients benefit from 20-percent shorter throughput times when opening an account while continuing to enjoy the same high quality processes.

The same applies to lending processes. In standard mortgage lending business, in particular, we have reduced the average throughput times by 30 percent and increased the process quality by around 30 percent.

In the Retail & Corporate Banking Division we have carried out a lean transformation of the Eschen bank branch.

The Private Banking Division completed its first lean transformation wave in August 2017. The teams in Liechtenstein, Switzerland and Germany / Austria have achieved improvements in areas relating to clients, productivity and employees. In addition, they have selected further themes to continually reconfigure their working environment according to lean principles. For our clients this results in the advantages of high-quality, fast services.

In 2018, our goal continues to be to gain more time for our clients. In the Institutional Clients Division the objective is to strengthen client relationships and establish closer proximity to clients. In the Retail & Corporate Banking Division a lean transformation of the Customer Service Center and the Financing Departments is planned. Furthermore, projects to improve the quality and efficiency of work processes at key interfaces in the CFO and COO Divisions are being drawn up. These measures safeguard and strengthen the LLB Group's competitiveness.

High level of automation

Since introducing the Avaloq Banking Suite software throughout the Group in 2011, the LLB Group has continually improved its processing quality and productivity. To facilitate continuing standardisation and automation, self-learning IT systems have in the meantime been installed in the service centres.

In 2017, in comparison with the appropriate benchmarks (CC sourcing of the University of St. Gallen), we attained very high STP rates (the percentage of transactions, which from start to finish are processed fully automatically).

Of all payment orders processed, 94 percent were submitted electronically and the STP rate stood at 99 percent. Over 99 percent of stock market statements were processed automatically and the STP rate with capital market transactions was almost 80 percent. The high scalability in volume-intensive process creates the essentials for the LLB Group to efficiently process large transaction volumes with the existing infrastructure and thus to further increase productivity.

Shared Service Center

As the backbone of the LLB Group, the Corporate Center makes a significant contribution to helping the company adapt to fiercer competition. This includes bundling the competences in the Shared Service Center at LLB's headquarters in Vaduz. The services concerned are payment transfers, trading and securities administration, the central client register of LLB and Bank Linth, as well as the payment systems of LLB (Österreich) AG. The continuing increase in the level of automation improves efficiency while keeping costs low. Starting in 2019, the Shared Service Center in Liechtenstein will also handle the transaction processes of our bank in Vienna.

Investments in LLB Austria's IT infrastructure

As one of the first financial institutes in Austria, our subsidiary bank in Vienna will utilise the Avaloq Banking Suite core software in future. The changeover will take place within the scope of a cooperative project between the LLB Group and the LGT Group. The introduction of this core banking software solution in 2019 will boost our growth in Austria and in the strategic growth markets of Central and Eastern Europe.

The clients of LLB (Österreich) AG will then be able to benefit from all the products and services of the LLB Group such as the "LLB Invest" investment advisory and asset management application. Moreover, the expansion of the core banking software system to include new online and mobile client applications will mean that all the digitalisation initiatives planned by the LLB Group up to 2020 will be available.

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 from CHF 80.1 million to CHF 70.6 million. On the one hand, higher medium and long-term interest rates had a positive effect on the valuation of interest rate swaps from the perspective of the reporting date. Consequently, trading business posted a substantially better result than in the previous year. On the other hand, the resulting valuations of financial investments were lower. The higher negative interest paid had an adverse impact on interest business. Operating expenses rose on account of higher personnel expenses. In the previous year a one-time reduction in the valuation of pension obligations led to a decrease in expenses. This effect amounting to CHF 10.2 million was no longer present in the year under report. In addition, the strategic expansion of personnel in the areas of innovation and risk management caused an in increase in expenses.

Segment reporting

in CHF thousands	2017	2016	+ / − %
Net interest income	3'960	27'994	−85.9
Credit loss (expense) / recovery	0	0	
Net interest income after credit loss (expense) / recovery	3'960	27'994	−85.9
Net fee and commission income	−4'406	−4'914	−10.3
Net trading income	51'625	25'917	99.2
Net income from financial investments at fair value	16'259	21'836	−25.5
Share of net income of joint venture	−14	0	
Other income	3'184	9'252	−65.6
Total operating income	**70'607**	**80'085**	**−11.8**
Personnel expenses	−75'604	−61'484	23.0
General and administrative expenses	−74'105	−81'380	−8.9
Depreciation and amortisation	−28'734	−27'480	4.6
Services (from) / to segments	89'831	83'540	7.5
Total operating expenses	**−88'612**	**−86'804**	**2.1**
Segment profit before tax	**−18'005**	**−6'719**	**168.0**

Additional information

	31.12.2017	31.12.2016	+ / − %
Employees (full-time equivalents, in positions)	423	417	1.4

The LLB share

The Liechtensteinische Landesbank share is a worthwhile investment. LLB investors have benefited from attractive dividend yields on the back of positive income growth. The LLB share is listed on the SIX Swiss Exchange.

Market capitalisation

The LLB share has been listed on the SIX Swiss Exchange since 1993 and assigned to the "International Reporting Standard" segment. At the General Meeting of Shareholders on 12 May 2017, the shareholders approved a proposal by the Board of Directors to convert the bearer shares into registered shares at a conversion ratio of 1:1. The share has been listed under the symbol LLBN (security number: 35514757) since completion of the conversion on 18 May 2017. In 2017, a total of 2'306'474 LLB shares (2016: 2'141'897) were traded on the SIX Swiss Exchange, corresponding to 7.5 percent (2016: 7.0 %) of total shares issued. With 30.8 million registered shares issued, the market capitalisation of Liechtensteinische Landesbank AG stood at CHF 1'529.2 million (2016: CHF 1'242.8 million) as at 31 December 2017.

Shareholder structure

The Principality of Liechtenstein's holding of 17.7 million LLB shares (57.5 % of the share capital) remained unchanged in 2017 on the previous year. In 2011, the Liechtenstein Government, as the representative of the majority shareholder, adopted the ownership strategy it has been pursuing in regards to the Principality's equity stake in Liechtensteinische Landesbank AG. The Liechtenstein Government thereby explicitly supports the stock exchange listing of LLB and retains a majority stake of at least 51 percent.

LLB held 6.2 percent (2016: 6.4 %) of its own shares as at the end of the reporting year. No other shareholder held more than 3 percent of the share capital in the reporting year. A total of 11'177'063 shares, or 36.3 percent, were in free float as at 31 December 2017 (31.12.2016: 10'232'642 or 33.2 %).

Overall 85.1 percent of the 30.8 million total registered shares were entered in the share register as at 31 December 2017. 14.9 percent, or 4'580'115 shares, were not registered.

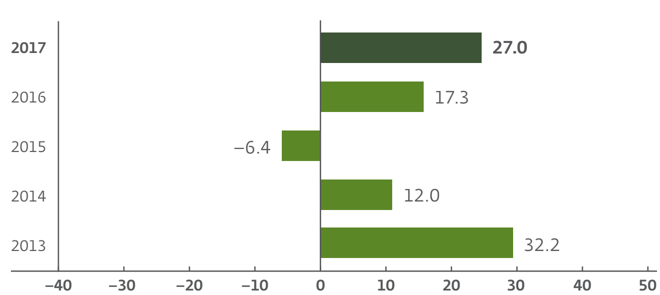
Share price performance

The Swiss Performance Index (SPI) gained 19.9 percent in the 12 months to the end of 2017. The price of the LLB share increased by 23.0 percent to CHF 49.65 as at 31 December 2017. The LLB share outperformed the banking sector: the SWX Banks Index ended the year 22.1 percent higher.

The LLB share held up very well despite persistently low interest rates and global market uncertainties. The LLB Group has a diversified business model, is targeting sustainable, profitable growth with its StepUp2020 strategy and is on track to achieve its strategic objectives. Its annual results for 2017 again underline its ability to produce good results even in a difficult environment. In the view of the analysts (see "Analysts' recommendations" on the next page), also the prospect of rising interest rates in the medium term, among other things, bodes well for a positive performance.

Total return on the LLB share

2013 – 2017, in percent



The total return on the LLB share stood at 27.0 percent (including re-invested dividends). The LLB share closed on 29 December 2017 at a year-end price of CHF 49.65.

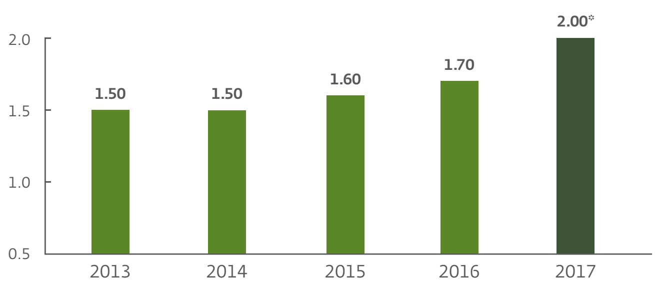
Dividend policy

Liechtensteinische Landesbank pursues an attractive, long-term-oriented dividend policy for the benefit of its shareholders. Furthermore, under the StepUp2020 strategy, the LLB Group is committed to safeguarding its financial security and stability. It intends to keep risk-bearing capital at a Tier 1 ratio of over 14 percent in accordance with Basel III. Against this backdrop, the payout ratio for shareholders should be 40 to 60 percent of Group net profit.

The Board of Directors will propose a dividend of CHF 2.00 per share (2016: CHF 1.70) at the 26th Ordinary General Meeting of Shareholders on 9 May 2018, representing an increase of 17.6 percent. Based on the share price as at the end of 2017, this corresponds to an attractive dividend yield of 4.0 percent. Total dividends to be paid out amount to CHF 57.8 million (2016: CHF 49.0 million). This represents a payout ratio of 51.9 percent for 2017 (2016: 47.2 %).

Dividend per share

2013 – 2017, in CHF



* Proposal of the Board of Directors to the General Meeting of Shareholders on 9 May 2018

Analysts' recommendations

In 2017, the Zürcher Kantonalbank (ZKB) analyst monitored the LLB share and regularly published studies and assessments on the LLB Group. ZKB changed its rating from "market weight" to "overweight" during the reporting year. The analyst raised his rating on 18 September 2017 after a fall in the LLB share price. The LLB share was upgraded to "overweight" in particular on the back of a sector study carried out by ZKB and published in September on the state of fintech in the Swiss banking sector. The ZKB analyst rated LLB as "well-positioned" in terms of its fintech offering and orientation. The acquisition of Semper Constantia Privatbank in Austria, which was announced shortly before Christmas, was viewed favourably by the ZKB analyst. On 3 January 2018, he reconfirmed the "overweight" rating with a fair share price of CHF 60.00. The analyst sees opportunities for returns, in particular, in the prospect of rising interest rates, the potential synergies from acquisitive growth and the cheaply priced share.

Since the middle of 2016, Research Partners AG with analyst Rainer Skierka has also provided coverage of the LLB Group. In January 2017, after a revision of the estimates for 2017 – 2018, Rainer Skierka confirmed the buy recommendation and set the twelve-month price target to CHF 53.50. On 6 April 2017, Research Partners AG reaffirmed the buy recommendation based on revised earnings estimates and raised the twelve-month price target to CHF 56.20. The equity research from Research Partners AG is not freely available and must be purchased.

In 2017, the private bank Mirabaud, and the analyst responsible Andreas Brun, also took up coverage of LLB. He recommended a "buy" for the LLB share. In March, after publication of the annual results for 2016, he raised the price target from CHF 46.60 to CHF 50.00, arguing that LLB had "not shot all its powder". After the planned acquisition of Semper Constantia Privatbank was announced, the analyst lifted the price target to CHF 53.00.

Communication with the capital market

The LLB Group aims to provide an up-to-date picture of the opportunities and risks relating to its business activities by engaging in an open and ongoing dialogue with investors, analysts and representatives of the media. As a publicly listed company, we are obliged to publish share-price relevant information, including ad hoc information about events that may affect the share price, by means of media communiqués to all stakeholders. We inform shareholders, clients, employees and the public simultaneously, comprehensively and regularly about our business performance, value drivers as well as strategy and provide them with an overview of our key financial and operating figures. The aim is to ensure that the price of the LLB share reflects the fair value of the company.

The LLB Group publishes annual and interim financial results. There are also media and analyst conferences as well as conference calls for analysts, investors and the media. At the General Meetings of Shareholders, the Board of Directors and the Board of Management report transparently on the course of business. We also hold regular discussions with investors, provide information at roadshows and participate in specialist conferences for financial analysts and investors during the course of the year.

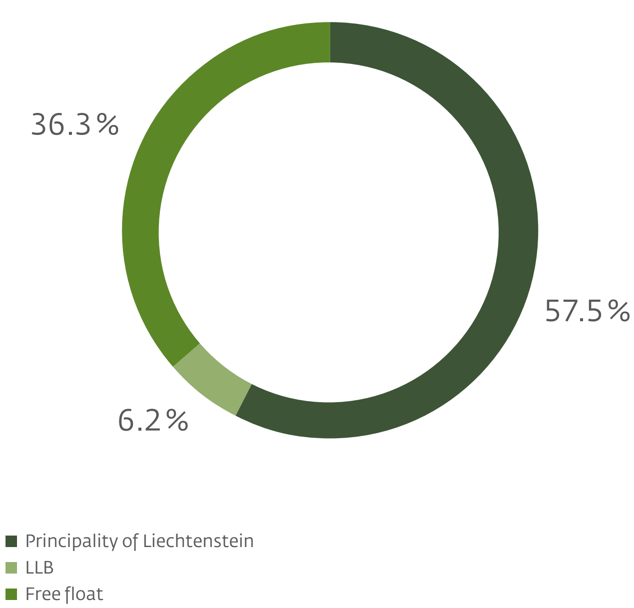
All publicly accessible information about the LLB Group can be accessed on our website at **www.llb.li**. The public is welcome to register for electronically provided share-price relevant information about the LLB Group at **www.llb.li/registration**. Additionally, we publish our information via social media channels (Facebook, Twitter). The annual and interim financial reports are published by us in printed form and have also been available in a comprehensive online version with numerous additional functions since 2005. The Annual Report 2017 in German can be accessed online at **gb2017.llb.li** and in English at **ar2017.llb.li**.

The LLB share: facts and figures

in CHF thousands	31.12.2017	31.12.2016
Total shares issued	30'800'000	30'800'000
Number of shares eligible for dividend	28'877'063	28'840'762
Free float (number of shares)	11'177'063	10'232'642
Free float (in percent)	36.3	33.2
Year's high (15 May 2017 / 15 November 2016)	55.75	43.30
Year's low (9 January 2017 / 18 January 2016)	40.00	33.35
Year-end price	49.65	40.35
Total return LLB share (in percent)	27.0	17.3
Performance SPI (in percent)	19.9	−1.4
Performance SWX Banking Index (in percent)	22.1	−15.3
Average trading volume (number of shares)	9'197	8'433
Market capitalization (in CHF billions)	1.53	1.24
Earnings per share attributable to the shareholders of LLB (in CHF)	3.66	3.40
Dividend per LLB share (in CHF)	* 2.00	1.70
Payout ratio (in percent)	51.9	47.2
Dividend yield at year-end price (in percent)	4.0	4.2
Return on equity attributable to the shareholders of LLB (in percent)	6.1	5.9
Eligible capital per LLB share (in CHF)	54.5	51.7

* Proposal of the Board of Directors to the General Meeting of Shareholders on 9 May 2018.

Shareholder structure in percent



Brand and sponsoring

The "Liechtensteinische Landesbank" and "Bank Linth" brands are prime value creators. Classical and modern, they reflect the values of the LLB Group. They embody our claim to be an innovative driver in the regions where we have our roots.

Brand strategy

The "Liechtensteinische Landesbank" and "Bank Linth" brands convey reliability and trust to our clients. They also signal agility and innovative power. They generate motivation and commitment among our employees. And our stakeholders value the stability, the security and the quality for which we stand. The two strong brands are connected through the elements of colour and image and in this way emphasise that they are part of the LLB Group and its brand world.

The brands connect us with our clients and within our Group of companies. As Liechtensteinische Landesbank, we are a partner of the Principality of Liechtenstein and its people. Through our subsidiary Bank Linth, we are also partners of the economy and society in the region of eastern Switzerland. On the one hand, we stand for the region and its culture. On the other hand, we are an international provider. With our focus on private banking, we are growing in Switzerland and Austria, and expanding into the growth markets of Central and Eastern Europe as well as the Middle East.

With our brands, we want to reach our clients through all channels – in print and online media as well as through personal contact. In this way, we increase the value of our company from without and strengthen its identity from within. The brand strategy and the brand management of the LLB Group are based on the corporate strategy and aim to further increase the brand recognition and firmly anchor the brand values. Concrete communication measures are determined annually during the planning process.

Brand components

The figurative mark of the LLB Group is classical and modern. The clear geometry of the brand logo stands for security and stability. The angles projecting beyond the basic shape symbolise our openness. The colour green signals our origin, and the red square core stands for our focus on what is essential and on our partners. The harmony and equality with which the elements form a unity represent connection and partnership. All LLB Group brands contain the same brand values.

Brand name

The brand architecture comprises two levels – the figurative mark and the brand name. The latter may deviate if a subsidiary is not fully owned by LLB. Hence Bank Linth bears its original name.

Brand orientation

The LLB Group's StepUp2020 strategy focuses on the four core elements – growth, profitability, innovation and excellence. It is reflected in the vision and guiding principles of the Group and in the strategic positioning of the two brands, "Liechtensteinische Landesbank" and "Bank Linth".

Vision

The LLB Group's vision is: "We set standards for banking with values." Our vision of banking is based on the idea that we can excel at managing material values if we have a clearly defined system of values.

Guiding principles

The LLB Group's guiding principles, which are derived from this vision, express four binding values that shape our corporate culture: integrity, respectfulness, excellence and pioneering (see chapter "Strategy and organisation", page 25).

Brand positioning

Both LLB Group brands, "Liechtensteinische Landesbank" and "Bank Linth", have an identical system of values. At the same time, the brands are clearly positioned with their own promise. For LLB, this is "Tradition meets innovation" and for Bank Linth, "Truly simple". The respective differentiation of each brand from competing brands provides an important basis for successful brand management.

Liechtensteinische Landesbank 1861

Tradition meets Innovation.

Liechtensteinische Landesbank is the oldest and longest-standing financial institution in Liechtenstein. It is committed to a concept of banking that is geared towards security and stability, while still being target-oriented and dynamic. LLB has innovative power, the strength of which comes from tradition. It creates added value by synthesising competing values. This leads to new and pioneering solutions. As a bank of values, LLB's journey from tradition into the future is encapsulated in the claim "Tradition meets innovation".

Bank Linth

Richtig einfach.

Bank Linth focuses on nurturing strong relationships. As the first financial institution in Switzerland, it has been consistently meeting clients' needs for years now by practising its motto of being "Truly simple". The idea behind this is to provide the individual client with time-saving, clarity and convenience in an ever more hectic and complex world. Excellent service quality, clearly and comprehensibly communicated, transforms clients into equal partners. Simplicity here works at three levels:

- **Simple access** – we want to approach our clients openly and provide a direct route to key contact partners.
- **Simple offerings** – our offerings and solutions must be intelligent and uncomplicated and correspond to the clients' individual wishes.
- **Simple communication** – we speak in a way that is easy to understand and our clients know what to expect from us.

Brand study

Knowing the values our clients hold is the basis of our brand management. Our brand study from 2016 shows the three main characteristics ascribed to LLB:

- LLB is very firmly anchored in Liechtenstein.
- LLB is perceived as an asset management partner.
- LLB is seen as a traditional, secure and stable bank.

The success of the LLB Group is closely related to client satisfaction. We receive information on the effectiveness of our client focus from regular analysis of the systematic feedback from all market divisions.

Brand and digitalisation

With its "Liechtensteinische Landesbank" and "Bank Linth" brands, the LLB Group is seizing the opportunities presented by the digital world. Our aim is to further develop the personal relationship with our clients and, at the same time, convey our values. An example of this is our new web portal with integrated online banking – it has a state-of-the-art layout and is user friendly and fully "responsive". We are one of very few banks that has designed its entire online offering as a one-stop shop (see chapter "Retail & Corporate Banking", page 34, and chapter "Corporate Center", page 45).

In April 2017, the LLB Group won bronze in the "Best of Swiss Web Awards" for the successful interplay between the brand and the online world. The jury of the longest-established web award in Europe honoured the "usability" of the product configurator for the "LLB Combi / Bank Linth Combi". The model fulfils our clients' needs for individuality and clarity in banking.

Social channels

LLB and Bank Linth conduct an omni-channel dialogue. This includes a presence in social media. Clients, potential applicants and employees exchange views here and by doing so help shape the image of the company. The LLB Group aligns its social media activities with its overall strategic concept. It includes four aspects that underscore our proximity to clients, our innovative power, our attractiveness as an employer and our brands' presence. The LLB Group community has continued to grow: on Facebook, for instance, the number of fans increased to 6'334 in 2017 (2016: 761), and 449 posts were published.

Our image on social channels is consistent with the overall image of the LLB Group. In this way, we support the value-oriented positioning of our brands. With concrete and authentic content, we enter into dialogue with all stakeholders through Facebook and Twitter. We strengthen our employer profile using the XING and LinkedIn networks. Given strategic and legal requirements, we are concentrating our efforts in the markets of Liechtenstein, Switzerland and Austria.

youli

Young adults' lives and days are dominated by the smartphone, the internet and social media. Under the "youli" label, the LLB Group is in constant dialogue with 15 to 30 year olds. The platform is active in Liechtenstein and eastern Switzerland and stands for "young Liechtenstein" and "young Linth". We bring infrastructure, coaching, advice, experiences and join-in activities in the language and into the world of the young people (see chapter "Retail & Corporate Banking", page 35).

Campaigns in the spring and autumn of 2017 generated much renewed interest in our youth platform. The number of "youli" fans on Facebook climbed to 3'124 "likes". Our contributions generated over 3'500 positive posts.

Implementation of brand content

We have been promoting the positioning of LLB since 2015 with the "We make traditional banking dynamic." image campaign. Six subjects communicating our brand image feature in all the important Liechtenstein and Swiss financial newspapers and business journals. These subjects are also on display at both the headquarters in Vaduz and the bank branches in Eschen and Balzers.

Image campaigns

With its "From Liechtenstein, for Liechtenstein" campaign at the beginning of 2017, LLB underlined its position as the bank for the country, the people and the economy of Liechtenstein. The LLB Group also focused on developing its strategic initiatives further. As in the past, investment expertise remained an important topic. LLB's strategy funds are among the European market leaders in a long-term comparison. In 2017, these were the subject of image campaigns with unconventional implementation in print and online media, which we launched predominantly in Liechtenstein, but also in selected Swiss and international press titles. In 2017, Bank Linth continued its image campaign "Truly simple".

Profile as an employer

In 2017, the LLB Group further enhanced its profile as an employer of choice. The differentiating and essential features of the LLB Group are the corporate culture, job diversity and scope for growth. Our employer branding concept serves to underline the particular character of the LLB Group as an employer. In line with its vision and guiding principles including the associated values, the LLB Group runs a campaign under the claim "Banking as it is meant to be: friendly and professional". The campaign includes HR image ads as well as job advertisements in print and online (see chapter "Employees", page 56).

Sponsoring

Sponsorships and events are gaining in importance worldwide. The instrument enjoys a high level of acceptance among all the stakeholders and conveys credibility and affinity.

In 2016, the LLB Group clearly reformulated its sponsoring strategy:

- We want our four values to be experienced on an emotional and professional level through our activities.
- We strengthen and enable platforms and partnerships which fit us best.
- We coordinate partnerships and our own events group-wide using a new management tool.
- We explain what the LLB Group stands for simply, using topic pyramids.

With our sponsoring policy, we want to gain our target groups as brand ambassadors. Our involvement must suit, complement or strengthen the character of our brands. We therefore only focus on a few, effective long-term sponsorships that have a clear connection to a specific market area. As a universal bank, we take our responsibility very seriously and sponsor public events. The LLB Group always remains politically neutral in this regard and does not make financial or any other types of contributions to politicians or parties.

Young adults and families

LLB and Bank Linth have placed young adults and families at the centre of their activities. The response has been resounding and very positive. In 2017, our commitment was to supporting, above all, sports, culture and society. We have supported three sponsorships and events for over a decade:

LLB is the main sponsor of FC Vaduz (FCV). We extended our involvement for a further two years in 2016. We have been supporting FCV for thirteen years now, because the team provides important impulses for professional sport in Liechtenstein and because it does valuable work for amateur sport too.

In July 2017, LLB invited bands and artists from the Rhine Valley region into the inner courtyard of LLB in Vaduz for the open-air "Summer in the Courtyard" series of concerts, which is already in its 21st year. What began in 1997 with a concert by the Big Band Liechtenstein has developed into a distinctive feature of the musical summer programme in Liechtenstein.

We have also sponsored the Vaduz Town Run ("Städtlelauf") for many years now – a popular fun run, staged in May 2017 with participants divided into eighteen categories and covering a running distance of up to ten kilometres (the main run). Participants and spectators from Liechtenstein and the surrounding region came to Vaduz for the 33rd anniversary of the run.

Funding

By foregrounding project sponsorship as support, the LLB Group underscores the principle that each project retains its content and organisational independence. In 2017, Liechtensteinische Landesbank invested CHF 575'000 (2016: CHF 545'000) in projects in Liechtenstein, and Bank Linth invested CHF 398'000 (2016: CHF 426'000) in projects in Switzerland. This is quite apart from our Group's long tradition of making donations. In this way, LLB has supported non-profit and social organisations for more than thirty years and since 2011 it has done this through the "Zukunftsstiftung der Liechtensteinischen Landesbank AG" (the Future Foundation of Liechtensteinische Landesbank AG), which was founded as part of our 150th anniversary celebrations (see chapter "Responsibilities for society and the environment", pages 69–70).

Employees

First-class and committed employees are guarantors for the success of the company. To enhance our profile as an attractive employer, we promote and challenge people who want to develop themselves and their bank further.

Corporate culture and value basis

The implementation of the StepUp2020 strategy (see chapter "Strategy and organisation", page 26) requires continuous improvement in performance. The LLB Group has a strong identity and value basis. We firmly believe that an open corporate culture which resolutely upholds values releases positive energy of a kind that makes a true difference to our clients.

Integrity, respectfulness, excellence and pioneering are the values we aspire to hold. What this means for our employees as they go about their work is: we create clarity and stand by our word. We believe in partnership and hold both clients and colleagues in high esteem. We set standards through performance and passion. We play an active role in creating a sustainable future. By living these values, our managers spread the culture throughout the organisation.

LLB as employer

As at the end of December 2017, the LLB Group had 867 full-time equivalents (2016: 858). With 598 full-time equivalents (2016: 587), LLB is one of the largest employers in Liechtenstein.

Employee satisfaction

Our employees are the key to fulfilling our performance mandate (see chapter "Responsibilities for society and the environment", pages 66–68). Their opinion is important to us. The in-depth employee survey, which we conduct every two years, belongs to the dialogue. In the 2017 survey, the LLB Group again achieved good results and the "Swiss Employer Award" (SEA) average in all relevant points. The commitment of the LLB Group's employees, in other words the sense of identity with and being part of the company, remained high with 85 points out of a possible 100 points (2015: 85).

In September 2017, the LLB Group received a Swiss Employer Award for the second time, the first time being in 2016, in the category of 250 to 999 employees. The Swiss Employer Award, a benchmarking initiative based on the largest employee survey in Switzerland, is regarded as a pioneering instrument. For the further development of the LLB Group, it is important to know how the organisational framework is perceived and whether it promotes and supports the client and performance orientation of the employees in the best way.

The next employee survey is planned for May 2019.

LLB as a regional employer

Satisfied employees – satisfied clients: this correlation plays a significant role in personnel policy questions about client orientation. Almost 100 percent of managers and the majority of employees in the main business locations have their roots in their respective region. They have a long-term view, are highly dedicated to the company and have a high level of integrity.

At the same time, professionals commute every day from eastern Switzerland (2017: 226, 2016: 206) and the Austrian state of Vorarlberg (2017: 73, 2016: 74) to their place of work at LLB in Liechtenstein. LLB is a major regional employer in Liechtenstein and the St. Gallen Rhine Valley. Bank Linth recruits almost all of its professionals from the Swiss regions of Lake Zurich, Sarganserland and Winterthur.

Internal communication

Clear and consistent internal communication increases acceptance among the employees. At a time of fundamental change in the banking sector, the LLB Group has developed a focused business model and the Group Executive Board has forged the path ahead for the company with the StepUp2020 strategy. The LLB Group is committed to communicating clearly to ensure the employees pursue the objectives in a motivated and dedicated manner. The communication concept, which the business area Group Corporate Communications & General Secretary developed together with Group Human Resources, helped to further foster corporate culture and staff motivation in 2017.

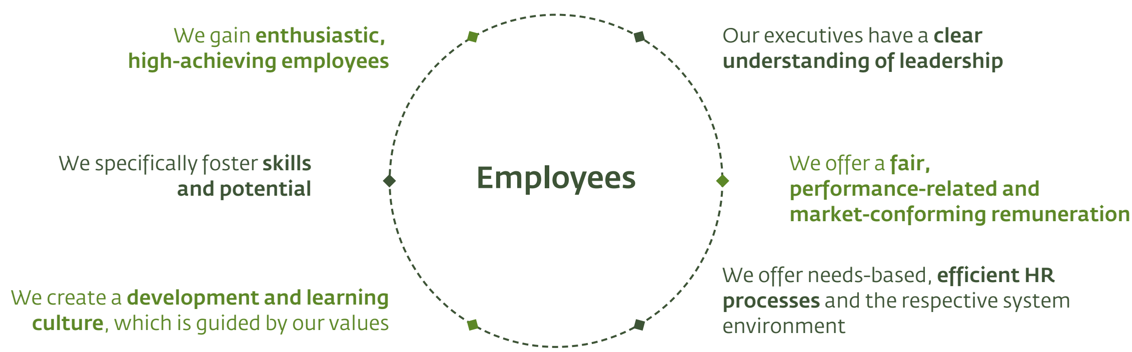
The Group CEO informs through a quarterly group-wide newsletter distributed via the intranet. He holds an information meeting for all LLB Group employees at least once a year. There is also an annual Group Night, plus biennial events held by our six divisions. Contributions from the CEO and Group Human Resources about our strategic initiatives can be found on the intranet, which is a key communication channel.

Performance pledge and employee development

The LLB Group is perceived to be an attractive employer that differentiates itself from its competitors through three key strengths: it offers a corporate culture based on partnership, interesting work content and plenty of scope for growth. High-achieving employees have excellent development opportunities and perspectives.

The performance pledge made by Group Human Resources in 2016 is being lived out: enthusiastic individuals should have the chance to advance themselves and the LLB Group. We want to achieve a top-class performance together. The performance pledge was set out in a strategic vision. This is an important instrument to raise awareness of the supportive yet demanding work environment.

Strategic vision



Working environment in focus

The LLB Group wants to enhance its profile as the employer of choice. It implemented additional measures to this end in 2017, among others in the areas of health promotion in the workplace, improvement of the physical working environment and flexibility of working hours and location.

Workplace of the future

Bank Linth reopened its headquarters in Uznach in June 2017 following refurbishment (see chapter "Retail & Corporate Banking", page 34). The entire building features state-of-the-art technology and provides open office areas with short distances for the staff: the "bank of the future" promotes communication and cooperation. Video-conferencing rooms, classic meeting rooms and a large seminar room form a universe for creative work, interaction and innovation. Bank Linth will convert all its branches following this model.

Quality of life in the workplace

The LLB Group is continually developing measures to further a health-promoting working environment. Various initiatives work together to increase the quality of life in the workplace, to reduce stress and to improve the health of the employees. Among these initiatives are seasonal fruit, which have been provided free of charge since the beginning of 2017, as are the water stations with integrated filter system (see chapter "Responsibilities for society and the environment", page 57). The incentive to work out during the lunch break has increased significantly since showers and changing facilities were installed at our business location in Vaduz.

In addition to this, a majority of our employees now have height-adjustable stand-up desks to work at. We also started to upgrade all the hardware in the offices at the end of 2017. By the end of January 2018, 881 out of 1'200 workstations were equipped with new PCs and notebooks. This means that so far we have upgraded 73 percent of all workstations.

Our "Working Atmosphere and Health Steering Committee" was set up in 2016. Its aim is, on the one hand, to increase job satisfaction and boost staff motivation and, on the other, to reduce work-related absence, which will save costs.

Health and safety

The absenteeism rate gives an indication of the incidence of accidents and long-term illnesses: in 2017, there were 146 (2016: 130). This corresponds to an absenteeism rate of 2.31 percent (2016: 1.97 %). Our target rate is between 2 and 2.5 percent. 80 percent of absenteeism costs were due to illness.

In 2017, 43 employees with long-service anniversaries of ten to forty years went on a sabbatical for up to four weeks (2016: 47). Most utilised the maximum number of days possible. This opportunity to rest and recuperate and broaden their horizon helps maintain flexibility, commitment and productivity.

Standards for the prevention of accidents and illnesses as well as for safety management apply group-wide. Procedures in the event of a fire or accident at the workplace as well as emergency and disaster management are governed by a directive. Eleven employees from the organisational units Security Management and Facility Management are responsible for carrying out routine building and equipment checks.

Return to work

Surveys conducted by the European Agency for Safety and Health at Work (www.osha.europa.eu) show that in Europe around 50 percent of sickness leave is due to stress in some form or other. What is more, mental stress can also often result in physical stress and vice versa. LLB Group employees in difficult work or life situations are able to gain free and anonymous access to psychological support.

Our aim is to reduce short- and long-term absences and to facilitate the return to work. We offer support to employees returning to work after a long absence and to those with serious health problems. Providing practical support enables employees to maintain or regain their productivity.

Compatibility of work and life situation

Our employee policy aims to create an optimal working environment. This includes the compatibility of work and private life in different life situations. In 2017, we progressed with projects offering greater flexibility of working hours and location.

To improve the compatibility of the work and life situation, we launched a project called "FreiZeit-Kauf" (purchase leisure time). For the first time, all LLB Group employees could increase their holiday entitlement by five or ten days. The employees forego some of their salary in return for leisure time. In 2017, 86 employees used this opportunity and gained a total of 645 additional leave days. At the same time, we support 80 percent part-time working and paternity leave.

As a forward-looking company, we are also continually developing the modern eWorkplace. Our objectives are to improve the availability of information and processes, to support the ability to work anywhere and anytime and to promote the exchange of knowledge within the Group.

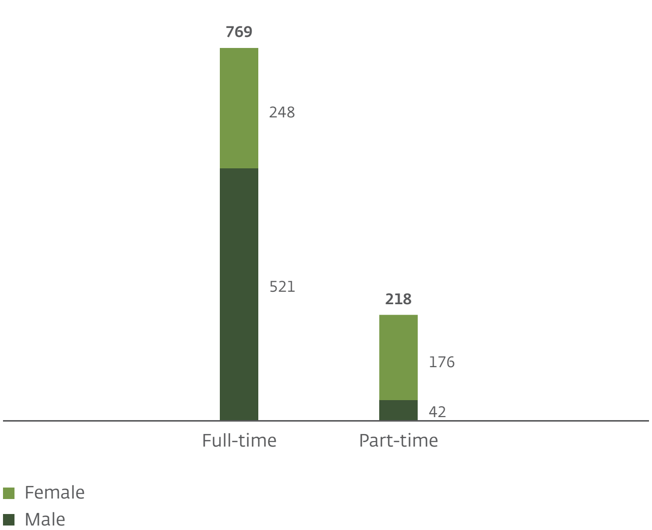
New crèche

In September 2017, the "Villa Wirbelwind" in Vaduz opened its doors for the first time. The crèche is open to the children of all Liechtenstein bank employees. Given the growing skills shortage in the region and the increasing demand for childcare places, it is an important move to ensure that Liechtenstein banks remain among the most innovative and attractive employers in the future, too.

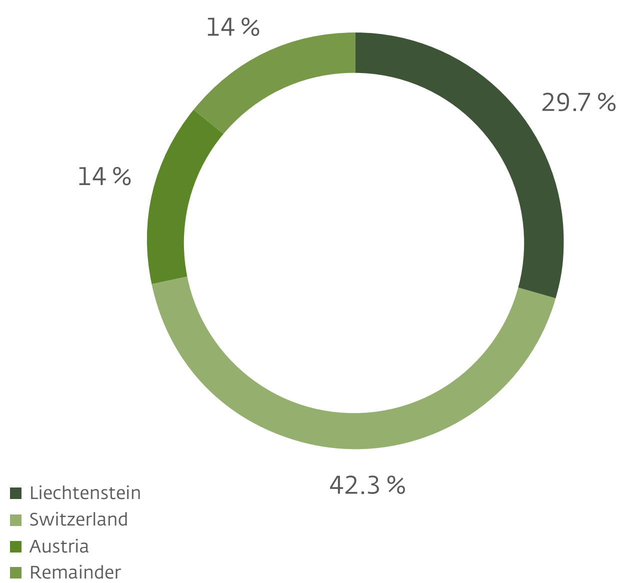
Diversity of employees and managers

The LLB Group employs people from 36 nations. Our success is based on the diversity of our employees and managers. The LLB Group aims to create an environment of appreciation for all employees, regardless of their nationality, age, gender, educational background, etc. The different skills, cultures and viewpoints make us a pioneering company.

Permanent employees by employment type



Employees by nationality



Even if we do not have a specific programme in place to promote diversity, people of different nationalities working together has been commonplace at our Group for many years. In 2017, 30 percent of our employees were Liechtenstein nationals, 42 percent Swiss and 14 percent were Austrian nationals. We are committed to ensuring that our client base is reflected in our employee mix (see "Regional employer", page 56). This also applies to our traditional cross-border markets in Germany and the rest of Western Europe as well as to the growth markets of Central and Eastern Europe and the Middle East.

The proportion of women working for the LLB Group is relatively high at 43 percent, though they are still under-represented in leadership positions. However, the growing number of well-educated women is bound to effect change in this area in the next few years. The Board of Directors and management support the culture of diversity. In July 2016, the first woman was appointed to the Group Executive Board (see chapter "Corporate governance", pages 96–97).

Women in management positions:
- Executive management: 5 men, 1 woman
- Senior management: 24 men, 1 woman

The Board of Directors of LLB, which is publicly listed, has been characterised by an above-average proportion of women since 2014. With two out of the seven members women, they represent almost 30 percent of the board members.

Training and professional education

For the LLB Group, training and professional education is an important instrument for raising its competitiveness. In 2017, we invested CHF 1.4 million (2016: CHF 1.6 million) in the targeted development of managers, talent and competences. Effectiveness monitoring conducted by the organisational unit Group Human Resources showed that further progress had been made in 2017. In addition, we invested CHF 244'000 (2016: CHF 239'000) in training programmes in accordance with the standards of the Swiss Association for Quality (SAQ).

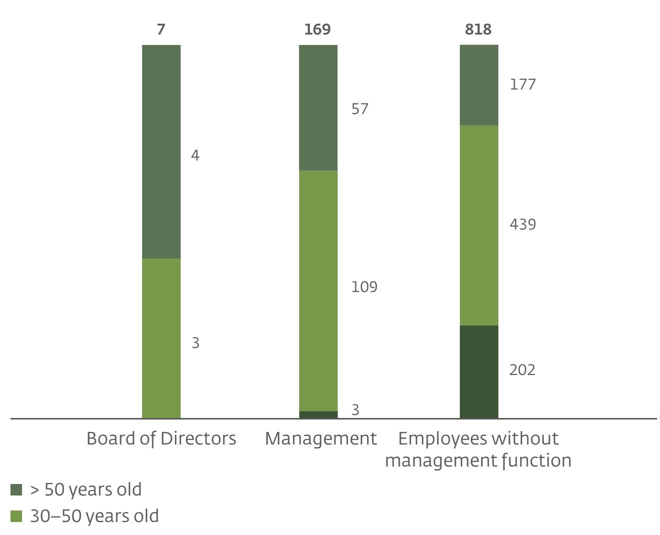
The culture of "challenging and promoting" has proved successful. In 2017, 71 percent of the vacant leadership positions could be filled internally by an existing employee. At the same time, new entrant managers and employees have a significantly higher level of qualifications: 73 percent either graduated from a university or a university of applied sciences or have higher professional training. The opportunities that we offer help us to recruit and retain committed employees and managers.

Management culture

Courses are held every two years to promote the further development of our management culture. In 2016, our 160 managers took part in the "Leading to success II" training course and dealt intensively with our vision, our guiding principles and the StepUp2020 strategy. They were essentially introduced to the concept of situational leadership. The next training courses are scheduled for 2018.

Number of employees by gender

Number of employees by age group



Client adviser certification

A strong client relationship remains the most important success factor in banking in the long term. The LLB Group accordingly invests heavily in the know-how of its employees. By the end of 2020, all employees who have contact with clients will have completed training programmes in accordance with the standards of the Swiss Association for Quality (SAQ). A total of 55 employees were certified by the end of 2017. Another 70 to 75 employees are likely to receive certification in 2018.

With our new programme for SAQ client adviser certification, we are ensuring the outstanding advisory competence of the LLB Group for the long term according to uniform quality criteria. The certification also complies with the regulatory requirements arising from the European Markets in Financial Instruments Directive (MiFID II) and the Swiss Financial Services Act (FinSA).

Measuring the success of staff development

The LLB Group has installed two uniform appraisal processes – the "Performance Management Process" (PMP) and the "People Development Process" (PDP) – to support the systematic further development of its staff as skilled employees, managers and individuals.

- The PMP is used to link Group objectives with individual staff objectives. The process has been institutionalised across the company and it works for employees and managers alike, irrespective of their position.
- The main focus of the PDP is on the competences that LLB needs to achieve the objectives set in the StepUp2020 strategy (2016 to end-2020). In 2014, Group Human Resources, together with the operating units, created five "Potential Pools" to systematically develop identified talent with good performance and excellent conduct. In 2017, 8.25 percent (71 individuals) (2016: 7 %, 64 individuals) of our employees were allocated to appropriate "Potential Pools" on the basis of a careful evaluation process.

Professional training

When it comes to the training of its junior employees, Liechtensteinische Landesbank lives up to its responsibility as one of the largest providers of training in Liechtenstein. In 2017, 36 apprentices (2016: 38) at the LLB Group benefited from high-quality dual professional training, which combines theory and practice. The classic basic training remains the main pillar of the development programme for our junior employees. We believe that the provision of a broad education is a key task, especially as through the Federal Vocational Baccalaureate (FVB) it allows young adults to keep their options open to go to a university of applied sciences or a traditional university.

Bachelor, work and study, and master programmes

Since 2014, the LLB Group has intensified its focus on university graduates. Each year there are three different programmes available for nine candidates – there were seven candidates in 2017: practical-based direct entry for graduates (2017: 3), a work and study programme for postgraduates in the final phase of their studies (2017: 2) and a trainee programme for postgraduates (2017: 2). Talented young people get to know our company in-depth from the inside as part of an eighteen-month on-the-job trainee programme covering three areas of work – in 2017, we took on two trainees with an above-average master's degree.

Our trainees are in contact with top management, are involved in day-to-day business from their very first day of work and profit from the comprehensive spectrum of a universal bank. Trainees whose performance and commitment in all three areas of work are satisfactory are recommended for a permanent position. In order to enhance its profile as an attractive employer, the LLB Group strengthened its presence at the Universities of Liechtenstein and St. Gallen, FHS St. Gallen University of Applied Sciences and Zurich University of Applied Sciences (ZHAW) in Winterthur.

Representation of employees

One of our objectives is to be a responsible and fair employer. Since 1999, a Representation of Employees (Arbeitnehmervertretung) at LLB's parent bank has actively fostered dialogue with female and male colleagues, on the one hand, and with corporate management, on the other. The board of the Representation of Employees acts as the mediator between the staff and the Group Executive Board as well as between employees and supervisors and promotes cooperation. The Group Executive Board informs the Representation of Employees of all matters that are relevant to employees. The Group CEO, the Head of Group Human Resources and representatives from the Representation of Employees meet every quarter. The Representation of Employees has a say, for example, in issues relating to staff pension plans, rationalisation projects, staff retrenchment and employee surveys.

Personnel Pension Fund Foundation

In 2017, 625 employees of our corporate Group who work in Liechtenstein were covered by the retirement, life and disability insurance plans of the autonomous Personnel Pension Fund Foundation of Liechtensteinische Landesbank. The pension fund and its defined contribution scheme offer three attractive savings plans that go beyond the requirements of the law (Occupational Pension Act (OPA)). In addition, LLB's contributions as an employer amount to two-thirds of the financing of the fund.

As at the end of December 2017, the liquidity ratio of the LLB pension fund stood at 111.0 percent (as at the end of December 2016: 109.3 %) and had thus increased by 1.7 percentage points on the previous year. The return on investment was 7 percent (2016: 3 %). The accumulated capital bore interest of 4 percent in 2017. The pension plan assets amounted to CHF 283.5 million (2016: CHF 290.5 million).

The low interest rate environment and the steady increase in life expectancy have induced the Board of Trustees from 1 January 2018 to gradually reduce the pension conversion rate at the retirement age of 64 by 0.1 percent per year to 5.1 percent (currently 5.5 %). As of 1 January 2023, the normal retirement age of the Liechtenstein AHV (state pension) will be raised to 65. The pension conversion rate will then be 5.22 percent.

Without lowering the conversion rate, the gap between the capital that is actually available and the capital that is necessary to provide the old-age pension granted would become wider and wider. Through this measure, the long-term financing and provision can be kept in equilibrium.

Fair compensation

The LLB Group offers attractive employment conditions. It spent CHF 155.4 million (2016: CHF 140.8 million) on salaries and social contributions in 2017 (see Notes to the consolidated income statement, page 144). The previous year's result also included one-time expense reductions from the valuation of staff pension obligations amounting to CHF 10.2 million. The current year's result includes one-time additional expenses for pension obligations of CHF 1.1 million.

We have a modern compensation system that is considered exemplary in the banking sector (see chapter "Compensation report", page 104). We place emphasis on fair compensation that explicitly rewards skills and performance. Women and men in the same position and at the same performance level are in the same pay scale and wage model. This is valid for all our business locations.

We are aware that the ratio of female to male salaries in our company is of importance to our stakeholder groups and our business success. We refrain from making this information public, on the one hand, for confidentiality reasons and, on the other, because functions are not strictly comparable and certain aspects of the compensation system are not included.

LLB Group headcount statistics

	2017	2016	2015	2014	2013
Employees					
Number of employees (full-time equivalents)	867	858	816	893	925
Full-time employees	769	767*	674	789	784
Part-time employees	218	207	202	244	279
Apprentices	36	38	42	47	50
Trainees incl. BEM interns	4	11	7	6	4
Key figures					
Staff turnover rate in percent	11.0	10.4	12.6	11.5	21.8
Average length of service in years	9.6	9.6	10.7	9.7	8.2
Average age in years	40.3	40.2	39.9	40.2	39.8
Diversity and equal opportunities					
Number of nations	36	39	31	34	29
Share of women in percent	43	42	44	45	45
Training and professional education					
Training costs in CHF thousands	1'384	1'570	1'195	1'191	1'291
SAQ certification	244	239	130		

* In the previous year the number of full-time employees was given as 718, the correct figure was 767.

Regulatory framework and developments

With the implementation of the Automatic Exchange of Information, Liechtenstein is one of the so-called Early Adopters of a comprehensive cooperation in international tax matters. The country and the financial centre stand for access to markets and for legal certainty.

Implementation of regulatory frameworks 2007–2018

2007	MiFID I
2008	
2009	3rd EU Anti-Money Laundering Directive; Liechtenstein Declaration
2010	
2011	Cross-border framework; UCITS IV
2012	
2013	AIFM Act; Complete revision of DDA
2014	Signing of MCAA on AEOI; IMF / Moneyval evaluation
2015	4th EU Anti-Money Laundering Directive; Refinement of cross-border framework; AEOI: Agreement signed by Liechtenstein/EU
2016	UCITS V; Complete revision of IUA; Implementation of AEOI
2017	Revision of DDA
2018	MiFID II; EU GDPR

Financial centre strategy

Liechtenstein has decided to adopt a financial centre strategy that is based on client tax compliance. The Government Declaration of 14 November 2013 signalled the country's strong commitment towards its tax compliance strategy heralded by the Liechtenstein Declaration of 12 March 2009. Liechtenstein is also implementing the US Foreign Account Tax Compliance Act by passing the FATCA Law. At the same time, it is signed up to the Automatic Exchange of Information (AEOI) in tax matters and the applicable standards of the Organisation for Economic Co-operation and Development (OECD).

In 2016, the Liechtenstein Bankers Association published its strategy for the Liechtenstein banking and financial centre entitled "Roadmap 2020". Its long-term focus is on quality, stability and sustainability. Furthermore, the banks and the Bankers Association expressly and actively support the financial centre's tax compliance strategy.

International tax topics

Automatic exchange of information (AEOI)
Liechtenstein was among the so-called Early Adopter Countries that signed the multilateral agreement on the automatic exchange of information, the so-called Multilateral Competent Authority Agreement (MCAA), on 29 October 2014. To date, 102 countries and financial centres have signed up to the AEOI. On 22 August 2016, Liechtenstein took another important step towards the implementation of its financial centre and tax strategy. The Government deposited its instrument of ratification for the Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters (MAC) at the OECD in Paris.

Exchange of data in 2017 / 2018
The first exchange of bank data with EU countries (excluding Austria) occurred in 2017 for the 2016 fiscal year. The MAC, which is a comprehensive multilateral instrument for tax matters, has been in force since 1 December 2016. On the basis of this agreement, the Automatic Exchange of Information has been implemented with 32 other states since 2017. Another 27 states will be added from 2018.

AEOI in Switzerland

In 2017, Swiss banks collected tax data which from 2018 will be exchanged with the EU member states and nine other states. From 2018, Switzerland will implement the Automatic Exchange of Information in tax matters with 41 other partner countries – including Liechtenstein.

Double taxation agreements and tax information exchange agreements

Bilateral, long-term cooperation agreements form the basis of Liechtenstein's financial centre policy. By the end of 2017, tax information exchange agreements (TIEAs) were concluded with 36 countries and double taxation agreements (DTAs) with 17 countries.

- **Liechtenstein / Switzerland**

The new double taxation agreement between Liechtenstein and Switzerland has been applied since 2017. The two countries signed the DTA on 10 July 2015 and it came into force on 22 December 2016. It is a comprehensive agreement which is based upon OECD recommendations and avoids the double taxation of income and capital. It replaces the agreement of 22 June 1995 between Switzerland and Liechtenstein on various tax issues, which only governed the taxation of certain income.

The new DTA also includes the taxation of AHV pensions. These can be taxed solely in the state of residence. The respective country of domicile will continue to retain the right of taxation in the case of cross-border commuters. Benefits from occupational pensions are subject to taxation in the recipient's country of domicile. The taxation of dividends, interest and royalty payments is now also governed by this new agreement.

- **Liechtenstein / Austria**

In 2017, Austria exchanged tax information on new clients for the first time on the basis of the AEOI agreement. Data collection started in October 2016 and an extended exchange to include existing clients will take place in September 2018.

To avoid duplication with the AEOI agreement, Liechtenstein and Austria signed on 17 October 2016 a Protocol of Amendment to the withholding tax agreement applicable since 2014. Both countries thereby agreed upon the partial continuation of the withholding tax agreement which includes provisions on non-transparent asset structures and existing transparent asset structures as at 31 December 2016. All other accounts and custody accounts fall under the AEOI agreement with the EU in future.

FATCA

The Liechtenstein FATCA Law ensures that Liechtenstein's financial institutions can operate in the US capital market. On 16 May 2014, Liechtenstein and the USA hence concluded an agreement (Intergovernmental Agreement according to model 1) on the implementation of the Foreign Account Tax Compliance Act (FATCA). This US Act obliges financial institutions worldwide to identify their US clients and to disclose their assets and revenues to the Internal Revenue Service (IRS) of the United States. The information goes beyond the applicable provisions of the Qualified Intermediary (QI) regime.

Cross-border banking

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

The LLB Group's internal rulings ensure that employees know and comply with the regulations of the respective target country when engaging in cross-border activities. Again in 2017, training courses were conducted for client advisers in the particular markets relevant to them.

Data protection

The ever more stringent legal requirements provide clear guidelines for data protection. Data protection is central for the LLB Group. In 2017, the Group Information Security Department received no alerts from the persons responsible for data security in the Group companies. We are bound by the laws and the regulatory guidelines in Liechtenstein, Switzerland and Austria, as well as the specific requirements and circumstances in our target markets.

Liechtenstein / Switzerland

The LLB Group implemented in 2016 the latest Swiss standards on dealing with risks associated with electronic client data. Switzerland is currently working on a revision of its Data Protection Act, which should bring it into line with the EU General Data Protection Regulation (EU GDPR)

EU General Data Protection Regulation

The EU General Data Protection Regulation entered into force in the European Union on 24 May 2016. It harmonises the rules on the recording and processing of personal data by companies and public authorities across the EU. It aims to ensure the protection of data and guarantee the free movement of data within the EU. After a two-year transition period, the Regulation will be binding throughout the European Union from 25 May 2018. The GDPR establishes a uniform legal basis for data protection across the EU for the first time.

The content of the Regulation brings various significant changes: New is the "right to be forgotten", under which a person can have the data controller erase their data from the web. New is also the "one-stop-shop mechanism", under which a person can notify directly the data protection authorities in their member state of any data breaches, regardless of where the breach occurred.

The Regulation also provides in part for stricter rules on key aspects of the data protection law: for instance, informing a person about the processing of their data, making contractual arrangements for the processing of data by third parties and transferring personal data to third countries.

The EEA is currently in the process of taking over the GDPR. As an EEA member, Liechtenstein has therefore initiated a complete revision of its Data Protection Act. The LLB Group has established rules which are applicable throughout the company and started to implement the necessary organisational and technical adjustments

Rules of conduct

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

Regulatory environment

Protection against money laundering

The fight against money laundering and terrorist financing has been a top priority for years for Liechtenstein, which has a zero-tolerance policy towards such matters. As a member of the EEA, Liechtenstein implemented in 2017 the 4th EU Anti-Money Laundering Directive 2015 / 849 as well as Regulation 2015 / 847 on information accompanying transfers of funds.

The relevant implementing provisions are found especially in the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime, and Terrorist Financing (Due Diligence Act; DDA) of 1 September 2017 and the corresponding Ordinance (Due Diligence Ordinance; DDO).

In 2002, 2007 and 2013 / 2014, the International Monetary Fund (IMF) and Moneyval (the Council of Europe's Committee of Experts) assessed to what extent the Liechtenstein provisions on anti-money laundering and combating the financing of terrorism meet the standards laid down by the Financial Action Task Force (FATF 40+9 Recommendations). In their last report, the IMF and Moneyval attested positively to Liechtenstein's standards in combating money laundering and financing of terrorism.

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

The Financial Intelligence Unit (FIU) serves as the country's central authority for obtaining and analysing information that is necessary to recognise money laundering, predicate offences for money laundering, organised crime and terrorist financing. It represents Liechtenstein in the Committee of Experts on anti-money laundering and terrorist financing in the EU. The revision of the FIU Law on 1 March 2016 and the adaptations made to the Due Diligence Act ensure Liechtenstein is fully legally compliant with the international standard.

MiFID II / Liechtenstein

The Liechtenstein financial centre implemented the Markets in Financial Instruments Directive (MiFID) on 1 November 2007. MiFID simplifies cross-border financial services and allows investment firms, banks and stock markets to also offer their services in other EU / EEA member states. Furthermore, they are required to conduct precise client and product analyses as well as disclose information on compensations and commissions.

The Amendment (MiFID II) and the accompanying Regulation (MiFIR) came into force in the EU on 3 January 2018, one year later than originally planned. They provide for further regulation of the financial markets and investment services. MiFIR also regulates trading transparency. Besides the refinement of regulations since MiFID, the aim of MiFID II is to create greater transparency in the markets and to increase investor protection.

High-frequency trade will be made more transparent and subject to stricter supervisory controls, while position limits on commodity trading will be stricter. In future, throughout the EU, consultations at bank branches and consultations by telephone must record and document in a comprehensive manner why a financial product was recommended and how it matches the client's risk profile.

In Liechtenstein, the implementation of MiFID II required comprehensive changes to the Banking Act and the Asset Management Act, the Banking Ordinance and the Asset Management Ordinance, as well as amendments in particular to the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act) and the Financial Market Supervision Act (FMA Act). The legislative process has been completed at national level and the amendments came into force on 3 January 2018. LLB implemented MiFID II within the specified time.

FinSA / Switzerland

Switzerland intends to conceptually reshape the guiding principles of its financial centre in order to transpose investor protection issues arising from MiFID II, in particular, into national law. On 4 November 2015, the Federal Council adopted the dispatch on the Financial Services Act (FinSA) and on the Financial Institutions Act (FinIA). The bills are being debated by Parliament.

The FinSA governs the prerequisites for providing financial services and offering financial instruments. The FinIA makes provision for an activity-based, differentiated supervisory regime for financial institutions requiring authorisation. The FinSA and the FinIA shall serve to provide modern investor protection and are expected to come into force in 2019.

The Financial Market Infrastructure Act (FMIA) and the Financial Market Infrastructure Ordinance (FMIO), which have been in force since 1 January 2016, are also all part of the new Swiss financial market architecture. Consequently, new rules that are consistent with the applicable international standards will apply in Switzerland for financial market infrastructures, such as trading venues and central counterparties, as well as for derivatives trading.

Access to the EU market

The Liechtenstein investment fund centre has a legal basis that is focused on clients and investor protection. Investment fund law comprises three pillars: the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act, 2011), the Law on Alternative Investment Fund Managers (AIFM Act, 2013) and the Investment Undertakings Act (IUA), which was revised in 2016.

UCITS V

With the transposition of the EU's Directive on Undertakings for Collective Investment in Transferable Securities (UCITS V) into the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act), traditional funds will be subject to uniform regulation Europe-wide. It places new requirements on custodian banks with regard to liability, control function, custody, independence and sanctions level.

AIFM

Access to the EU market is central to the competitiveness of both the Liechtenstein financial and investment fund centre. Since the adoption of EU law in the EEA Agreement, Liechtenstein investment companies have been legally entitled not only to administer and sell UCITS funds across national borders, but also to use the EU passport for alternative investment fund managers (AIFMs). The AIFM Directive serves to increase the transparency of the activities of the alternative investment fund managers and the alternative investment funds (AIFs) they manage vis-à-vis investors and the supervisory authorities.

IUA

The Investment Undertakings Act (IUA) was completely revised in 2016 and applies to four clearly defined domestic investment fund categories. The new investment fund law regulates most notably the fund business model for single investors that was specially set up in Liechtenstein.

Group Legal & Compliance competence centre

Group Legal & Compliance has been under the Group CFO Division since 2016. LLB has a traditional legal department, Group Legal, plus three specialised compliance departments:

- Group Financial Crimes Compliance is responsible for fulfilling legal anti-money laundering requirements.
- Group Regulatory Compliance is focused on compliance with supervisory requirements, inter alia, in the areas of MiFID and cross-border.
- Group Tax Compliance is responsible, inter alia, for implementing a tax compliance strategy as well as AEOI and FATCA.

Compliance, according to the regulations governing the conduct of business of Liechtensteinische Landesbank AG of 1 January 2016, means the observance of legal, regulatory and internal regulations as well as of common market standards and codes of conduct. Group Legal & Compliance supports and advises the Group Executive Board regarding the assessment and monitoring of legal and compliance risks. This organisational unit is involved in all the LLB Group's regulatory measures and projects.

Responsibilities for society and the environment

Awareness of the need to act responsibly is deeply rooted in the LLB Group. As partner of the Principality of Liechtenstein as well as of society and the economy, we are committed to leaving future generations with stable social conditions and an environment that is as intact as possible.

Sustainability mandate

The LLB Group's business policy, which is focused on continuity, forms the basis for sustainable action. Sustainability to us means balancing economic viability with social and environmental responsibility. The Annual Report 2017 contains an integrated "Stakeholders report" for the third time, the first time being in 2015 and the second in 2016. It was prepared in accordance with the Global Reporting Initiative (GRI) Standards – "Core Option". By doing this, we are highlighting our proactive focus on sustainability.

Implementation of the CSR Directive

Since 2017, capital market-oriented corporations as well as large credit institutions and insurance companies that have more than 500 employees have been required to disclose information about their Corporate Social Responsibility (CSR) performance in their annual report. In September 2016, EEA country Liechtenstein amended its Persons and Companies Act (PGR) and implemented Directive 2014 / 95 / EU (the CSR Directive on disclosure of non-financial and diversity information). For the first time ever, Liechtenstein has regulations on reporting about certain sustainability topics such as environmental, employee and social matters, as well as respect for human rights, anti-corruption and bribery matters.

LLB met EEA requirements a year before the law came into force in Liechtenstein. At the end of 2014, it compiled a set of around 25 sustainability topics. In 2015, in accordance with version 4.0 of the GRI, we established, reviewed and evaluated a list of material aspects and indicators and focused on strategic priorities, as shown in the materiality matrix on the right. We reviewed and supplemented the material aspects in 2016 and 2017.

Value-oriented

The values of "integrity", "respectfulness", "excellence" and "pioneering" (see chapter "Strategy and organisation", page 25) underpin the LLB Group's actions. We are client-oriented and, as such, are investing in the further development of the physical and electronic contact points (see chapters "Retail & Corporate Banking", page 34; "Corporate Center", page 45). Here we are paying particular attention to meeting our clients' security needs and our data protection standards for the use of the various distribution channels at all times. Our internal code of conduct provides a guiding framework for the value-based and responsible actions of all employees (see chapter "Strategy and Organisation", page 26).

Contribution to the sustainable development of Liechtenstein

The LLB Group is involved in different cultural, environmental and social areas (see chapter "Brand and sponsoring", page 53) and thus in the sustainable development of a prosperous Liechtenstein. This forms the basis for the fulfilment of our performance mandate. We indirectly promote Liechtenstein as a workplace and contribute to the prosperity of the people (see chapter "Retail & Corporate Banking", page 33).

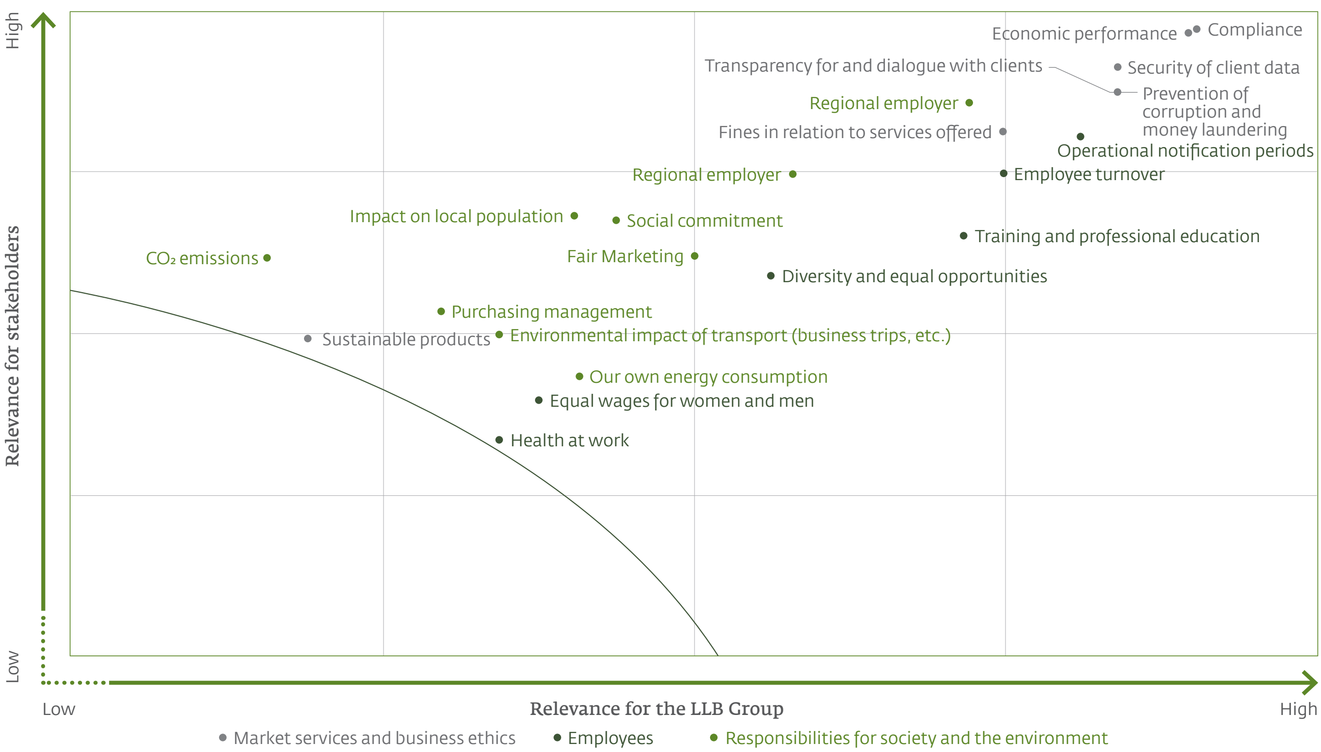
In dialogue with stakeholder groups

For the LLB Group, sustainability as a corporate responsibility means meeting the expectations of the different internal and external stakeholder groups. The Group Corporate Communications & General Secretary Business Area works together with the line and support units of the core team on an ongoing basis to further develop the key sustainability topics.

While the members of this core team represent the views of the LLB Group, they are in regular dialogue – personally, by electronic media or telephone, or at information meetings, working sessions, roadshows or conferences – with the different stakeholders who we influence and who, in turn, influence the course of our business.

This page includes, inter alia, the following GRI standard indicators (2016 version): 102-40, 102-42, 102-43 and 102-44.
A complete list of all indicators shown in the report can be found in the GRI Content Index on page 75.

Materiality matrix for sustainability aspects



The stakeholder groups are in particular:

- **Clients:** Their needs are uppermost at every point of contact. Our client advisers systematically record client needs plus private and corporate client satisfaction. The LLB Group fosters partnership-based dialogue with its institutional clients via its "LLB Xpert Views" online platform and in round-table discussions (see chapters "Retail & Corporate Banking", "Private Banking" and "Institutional Clients").

- **Principality of Liechtenstein:** The Principality of Liechtenstein is our majority shareholder. The Chairman of the Board of Directors of the LLB Group and the Group CEO submit a bi-annual report on the course of business to the Head of the Government of Liechtenstein. Once a year, the Board of Directors and the Group Executive Board exchange views with the entire Government. It, in turn, reports to the Audit Commission of the Landtag (Parliament) on the implementation of the investment strategy of Liechtensteinische Landesbank AG (see chapter "Corporate governance", page 78).

- **Shareholders:** In addition to the annual General Meeting of Shareholders, we exchange views with our shareholders at investor presentations and in regular meetings with the Liechtenstein Government as the representative of the majority shareholder, the Principality of Liechtenstein (see chapter "Corporate governance", page 101).

- **The public:** We are in continuous dialogue with the public through our employees. We also foster an intensive exchange with media representatives (see chapter "The LLB share", page 51).

- **Partners and non-governmental organisations (NGOs):** Through our membership of associations and organisations, we maintain a dialogue with partners and NGOs (see chapters "Regulatory framework and developments", page 62, "Institutional Clients", pages 41–42, and "Responsibilities for society and the environment", pages 68– 69).

- **Employees:** We obtain our employees' opinions by engaging in dialogue during the annual objective-setting process as well as in the employee survey, which is conducted every two years (see chapter "Employees", pages 56–57).

Key sustainability topics

Sustainable business management and long-term responsibility are core values to us. The key factors in selecting and prioritising topics

This page includes, inter alia, the following GRI standard indicators (2016 version): 102-47.
A complete list of all indicators shown in the report can be found in the GRI Content Index on page 75.

for the materiality matrix were: the external impact; the impact on the stakeholder groups; the relevance to the existence of the banking group; and public perception. For the key sustainability topics, we defined the relevant GRI aspects and indicators. The LLB Group closely monitors the topics included in the materiality matrix (see chart on page 67) and addresses them individually. The topics positioned in the top right of the matrix are of particular significance. In 2017, we further developed the process of identifying and managing sustainability topics.

Performance mandate

The Principality of Liechtenstein is the majority shareholder in LLB with 57.5 percent of the share capital. This ownership situation is unique in Liechtenstein. Sustainable business management is part of the performance mandate and the principles governing the corporate strategy of Liechtensteinische Landesbank. At the same time, social commitment has always been a significant part of our corporate identity. Our activities are in line with our statutory mandate: according to Art. 3 of the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992 and under the investment strategy of the Government of the Principality of Liechtenstein of 22 November 2011, LLB is mandated with the social responsibility of promoting Liechtenstein's economic development while at the same time still taking ethical and ecological factors into account.

Financial stability

Liechtenstein is among eleven countries worldwide with an AAA rating. On 29 January 2018, Standard & Poor's (S&P) reconfirmed its best rating for the country's creditworthiness. Liechtenstein has no national debt, instead it has large reserves thanks to strict budgetary discipline. A functioning banking sector and stable financial centre with strong international connections contribute substantially to the financial results of the state.

The financial services sector, accounting for around 24 percent of GDP, is the most important sector in the Liechtenstein economy after industry. The banks are particularly distinguished by their financial stability. Having a sufficiently high-quality equity base at its disposal is part of the LLB Group's identity. Today it already meets the core capital ratio required under Basel III regulations from 2019 onwards (see chapter "Finance and risk management", page 29).

Economic contribution

The LLB Group bases its business policy on market principles and strives to generate a reasonable profit. The Principality of Liechtenstein and its population participate in profits through regular distributions. The economic contribution – dividends, direct taxes and the compensation payment for the state guarantee – of the LLB Group amounted to CHF 46.4 million in 2017 (2016: CHF 38.4 million). LLB receives no financial support for its banks or Group companies in Liechtenstein, Switzerland and Austria from any government.

LLB is the only bank in Liechtenstein which carries a state guarantee for savings account deposits and medium-term notes (cash bonds). This is regulated in the Law on the Liechtensteinische Landesbank of 21 October 1992. According to Art. 5, the Principality of Liechtenstein is liable for savings account deposits at the Landesbank and for medium-term notes (cash bonds) of the Landesbank, insofar as the bank's own resources are not sufficient. For this additional security, from which our clients benefit, LLB makes a yearly compensation payment to the Principality. In 2017, this amounted to CHF 1.1 million (2016: CHF 1.2 million).

Sustainable products and services

With a range of products and services, the LLB Group takes social responsibility for the future generations in its home markets of Liechtenstein and Switzerland. This applies to both private individuals and small and medium-sized enterprises (SMEs).

Risk-conscious growth in the mortgage lending business

The development of the real estate and mortgage market plays a key role in the economy. In Liechtenstein, LLB has a leadership position in the mortgage lending business with a market share of around 50 percent. Bank Linth is an important partner for the people and economy of eastern Switzerland. To achieve sustained, profitable growth, the LLB Group focuses in Liechtenstein and Switzerland on the quality of the mortgage portfolio and risk-conscious growth carefully tuned to suit the region and the type of property. In 2017, mortgages accounted for 87.4 percent (2016: 86.5 %) of loans granted by the LLB Group, corresponding to CHF 10.6 billion (2016: CHF 10.0 billion).

Private financial planning

LLB is the only bank in Liechtenstein to offer comprehensive private financial planning. Changing asset structures, the growing diversity and complexity of financial instruments, the globalisation of financial markets and changes in retirement planning are new aspects that we have to take account of. The need for professional and holistic private financial planning is growing. In 2017, LLB further refined its "LLB Compass" service offering, which offers solutions for all stages of life and business. Bank Linth launched its comprehensive advisory service in Switzerland in spring 2017.

LBB offers three separate advisory packages for corporate clients. In the case of owners of small and medium-sized enterprises (SMEs), private and business assets are often closely interlinked. Our 360-degree financial planning covers all the important topics such as assets, financing, retirement planning, real estate, taxes and estates.

LLB Liechtenstein Pension Fund Foundation

At LLB, client orientation means nurturing stable, long-term relationships at the same time as being innovative and proactive. With the LLB Liechtenstein Pension Fund Foundation, we have been offering our clients a service that is extraordinary for a bank since 2005. With a market share of around 40 percent, the LLB Liechtenstein Pension Fund Foundation is an essential pillar of the pension fund market in Liechtenstein.

It is also an important element in LLB's integrated advisory and financial planning services for SMEs. Occupational retirement provision, financed by a capital funding system, is becoming increasingly important in an ageing society. The LLB Liechtenstein Pension Fund Foundation is represented on the Executive Board of the Liechtenstein Pension Scheme Association (LPKV) and has a decisive role in expanding the Liechtenstein pension fund market. To address the financing of pensions, a reform package for the Old-Age and Survivors' Insurance (OASI) and occupational pension provision came into force in Liechtenstein on 1 January 2017.

The LLB Liechtenstein Pension Fund Foundation has established itself as a competence centre. As the youngest pension fund in the Principality, it ranks as the number two among the independent collective foundations. At the end of 2017, it had significantly increased pension fund capital under management to CHF 732 million (2016: CHF 620 million). It provided services to 423 (2016: 420) companies with 5'360 (2016: 4'970) active insured persons and had a liquidity ratio of 107 percent (2016: 104.4 %). The foundation has a very good structural ratio: for each pensioner there are 19 active insured contributors (2016: 21 active insured contributors).

Sustainable investment

According to Liechtenstein's Environmental, Social and Governance (ESG) Market Report of November 2016, LLB with its funds is the market leader in the Principality. The funds are managed by LLB Asset Management AG, the LLB Group's investment competence centre. We concentrate on the shares of companies that are audited on their ESG criteria and have a good sustainability rating. ESG criteria are increasingly having an impact on the risk and return profile of a company and hence on the investment portfolio of an investor.

Sustainable asset management

Our product range also includes "Sustainable asset management", developed by the Asset Management Business Area of the LLB Group. When constructing a portfolio, certain sectors such as tobacco, alcohol, nuclear energy and armaments are excluded. Companies which do not comply with specific social or environmental standards as well as countries which are subject to sanctions are also excluded. To ensure we invest in a socially responsible way, we focus on investment-grade bonds, inflation-linked bonds, convertible bonds, developed market equities and real estate investment trusts (REITs).

Basically, the LLB Group's investment policy excludes ethically unsuitable products or behaviour. Hence we exclude high-yield bonds, emerging market bonds and equities, commodities and alternative investments such as hedge funds. Liechtensteinische Landesbank has no financial products itself which contain soft commodity investments. In the case of products from other providers, it is guided by the Dow Jones UBS Commodity Index, which consists of one third energy, one third non-ferrous and precious metals and one third soft commodities such as corn, soya, cocoa or rice. In the case of the LLB strategy funds, the proportion of investments in commodities amounts to 2 percent, whereby merely 0.66 percent consists of futures on soft commodities as a complement.

Risk management

Integrity, performance and trustworthiness form the basis of responsible and transparent corporate governance. Effective risk management, that means permanent and systematic monitoring to minimise risk, also plays a decisive role (see chapter "Finance and risk management", page 28). By specifying a future-oriented risk strategy, the Board of Directors establishes the guidelines for dealing with risks. In addition, it continues to develop corporate governance on an ongoing basis (see chapter "Corporate governance", page 78).

The applicable laws, directives, guidelines and market standards as well as supervisory and internal regulations form an essential base. Group Legal & Compliance advises the business areas, identifies and analyses compliance risks, and ensures that all staff comply with the rules of conduct (see chapter "Regulatory framework and developments", page 64).

The non-profit Future Foundation

Sustainability in everyday life

The "Zukunftsstiftung der Liechtensteinischen Landesbank AG" (the Future Foundation of Liechtensteinische Landesbank AG), which was founded in 2011 as part of our 150th anniversary celebrations, supports commitment to social and ecological sustainability in everyday life. We support organisations and non-profit projects that improve living and working conditions and promote self-responsibility. Besides this, we promote projects dedicated to environmental protection. We focus on innovations in the areas of knowledge transfer as well as the integration and implementation of social entrepreneurship.

Trust, responsibility and reliability are important to the LLB Group. The company is closely connected to the people and the economy of Liechtenstein and the adjacent regions. In addition to project-specific contributions amounting to CHF 32'000, the Future Foundation contributed to society by donating a total of CHF 79'500 to social organisations in 2017. The Future Foundation is a member of the network of the "Vereinigung liechtensteinischer gemeinnütziger Stiftungen" (Association of Liechtenstein Non-Profit Foundations), which aims to promote the idea of entrepreneurial philanthropy.

Projects in 2017

The Future Foundation's commitment in the areas of community service and the environment has a lasting, sustainable impact. Through its annual donations to a set circle of social institutions in Liechtenstein, the Future Foundation helps to maintain healthy social structures in the country. Providing additional funding to individual projects helps innovative ideas in the area of social and ecological development in the LLB Group's market regions to be realised in practice.

Over the past six years, the Future Foundation has made over 120 donations and contributions to around 40 projects, in all totalling over CHF 900'000.

Since the projects receiving funding contributions are mostly small, focused and located in the market regions of LLB and Bank Linth (Liechtenstein and eastern Switzerland) as well as LLB Österreich, from the point of view of the beneficiary organisations the funding is often critical to their realisation. In 2017, the Future Foundation supported the following projects:

- **Verein Neuraum (new space association) – FreeVeloPoint:** The association has old bicycles renovated in a social workshop and provides them free of charge to the public. There are now around eighty bicycles available for use and fourteen docking stations across Liechtenstein's municipalities.
- **pepperMINT:** The MINT Initiative Liechtenstein is a social foundation that that offers children and young people the chance to experience and learn mathematics, computer science, natural science and technology in a fun way.
- **Initiative Praktische Hilfe (practical help initiative):** Refugees and asylum seekers receive support when it comes to learning a language, applying for a job or filling out a form. And through networking with institutions and companies, the initiative helps refugees to integrate into the work process faster.
- Sibiu 2018 – Providing support to a Romany village in Romania: In October, thirty apprentices from Liechtenstein are to refurbish an old carpenter's workshop under the supervision of expert craftsmen. The objective of the project is to contribute to improving the living conditions in the municipalities of Transylvania by preserving the cultural heritage.
- **Association NetzWerk – "Freiwilliges Soziales Jahr Liechtenstein" (voluntary year of community service):** This project, which has been supported by the Future Foundation since 2016, offers young people the opportunity to complete a professionally organised voluntary social service year at a social institution. Six people successfully completed a social service year in 2017.
- **"Stiftung Zukunft Liechtenstein" foundation:** LLB has been promoting this think tank, which addresses economic and socio-political topics relevant to the sustainable development of Liechtenstein and the securing of its future, for the past four years.
- **Alte Metzg Schaan:** In 2017, LLB again supported the Christmas campaign to distribute food aid to people in need.

Drink tap water – donate drinking water

LLB joined "Drink & Donate" – a drinking water project. Since February 2017, hydration stations that use fresh tap water have been provided at its headquarters in Vaduz. Laboratory tests attest to its excellent quality. LBB donates CHF 60 per employee per year to "Drink & Donate", a Zurich-based non-profit organisation. We donated a total of CHF 39'000 in 2017.

By consuming tap water instead of transporting branded bottled water thousands of kilometres, we want to reduce our CO_2 footprint, produce less waste, save energy and protect our environment. In this way, the 660 LLB employees in Vaduz and our clients make a sustainable contribution to supporting people in developing countries who do not have access to clean drinking water.

Mobility management

The LLB Group is committed to actively managing the environmental impact of the business and commuter traffic caused by its employees.

Promoting the use of public transport

We encourage our staff to use public transport and, if possible, not to drive to work, but to form car pools or switch to more environmentally friendly alternatives. According to a report by the Liechtenstein Government on its Energy Strategy 2020, road traffic in Liechtenstein grew at an average annual rate of 5 percent between 2009 and 2015. Densely built-up areas mean that carriageways and parking spaces cannot be expanded in many cases.

In 2013, LLB's Mobility Commission added new elements to its comprehensive mobility management, which was introduced in 2010. It considerably increased not only the costs for parking spaces but also the rewards to those employees who switch from using private motorised transport to more environmentally friendly means of transport. The fee system for employee parking spaces comprises four rates. LLB makes graduated payments to employees who forego a parking space.

It subsidises 50 percent of the cost of an annual travel pass with LIECHTENSTEINmobil (LIEmobil), the Liechtenstein bus company, as an incentive to use public transport. Employees commuting to their workplace from outside the area served by LIEmobil buses receive an allowance for using regional public transport. There are a total of six vehicles and two trailers available for work-related trips, errands and building maintenance.

Cycling to work

More than half of the distances travelled by car in Liechtenstein are shorter than five kilometres, as are the distances between the individual LLB buildings in Vaduz. Our employees have had the possibility to use company bicycles since 1996; we now have 45 such bicycles. LLB employees have been taking part in the competition run by the Verkehrs-Club Liechtenstein (VCL) "Radfahren für Ihre Gesundheit" (Cycling for your health) and the one by the LIHK "Mit dem Rad zur Arbeit" (Cycling to work) for years. We make a contribution of CHF 50 towards the cost of buying a bicycle helmet. Since 2016, this rule has also applied to ski and motorcycle helmets and runs under the motto "Kluge Köpfe schützen sich" (Clever heads protect themselves).

We want to make it as easy as possible for our staff to make the switch to using bicycles for transportation. This is the reason why we have installed showers and changing facilities right next to the bicycle room and offer towel services.

State-of-the-art video technology

Since ecology and the economy are inseparably linked, our aim of promoting energy efficiency also applies to the number of kilometres travelled on business trips. We were able to further reduce this amount as a result of having installed over 25 video-conferencing systems group-wide since 2015. The LLB Group uses the latest state-of-the-art, high-end video technology with the best picture and sound quality so that decision-making processes and optimum knowledge transfer can be accelerated at executive and project team meetings. At the same time, this means travel cost savings and, hence, an improvement in the CO_2 footprint, as shown in the table on "Energy consumption and greenhouse gas emissions".

Due to increasing demand, we installed more video-conferencing systems in 2017 and will develop the technology further in 2018.

Sustainable procurement

Purchasing management

The growing complexity of supply chains makes purchasing management, in conjunction with sustainable business management, an important discipline. The LLB Group is committed to ensuring that human rights and ecological standards are observed in the supply chain.

That is why we drew up a group-wide directive in 2013 that sets minimum standards our suppliers are obliged to accept. These include compliance with laws, minimisation of the environmental impact, staff health protection as well as the avoidance of both child labour and forced labour. Fairness, transparency, data protection, human rights as well as ecological and ethical behaviour are essential criteria for our purchasing management. Offers are systematically analysed and checked for compliance with the standards.

We increasingly raise our employees' awareness to consider sustainability when choosing office supplies, office equipment and suppliers. Our purchasing management is continuously being developed. This will support our mission to integrate the factor of sustainability, analyse savings potential and reduce costs.

Well over 50 percent of our suppliers are based in Liechtenstein or eastern Switzerland. Our local buyers (category managers) check that new suppliers are observing human rights and ecological standards. When procuring IT products, the category manager for the purchasing class "IT & market data (IT)" checks the resource consumption for operating and disposing of the equipment.

Energy efficiency and climate protection

For the LLB Group and its stakeholder groups, sustainability means ensuring long-term corporate success, accepting responsibility and using resources in a conscious way. Fossil energy sources, which are essential to modern industrial society, are finite. For both ecological and economic reasons, scarce resources must be used responsibly. This guiding principle applies equally to LLB in Liechtenstein, Bank Linth and LLB Österreich.

The recording of energy consumption and greenhouse gas emissions is being continuously optimised. For the first time, we also collected data for our business location in Vienna for 2017 and retrospectively for 2016. This necessitated a revised presentation of the environmental indicators.

The LLB Group wants to contribute to climate protection by increasing energy efficiency and save costs at the same time. This is the reason why we are continuously optimising the recording of energy consumption and greenhouse gas emissions. The organisational units Security Management and Facility Management identify potential energy savings and evaluate the effect of efficiency measures. An example of this is the "Green Datacenter".

"Green IT" data processing centre

Infrastructure and energy costs for data processing centres are a key factor in facility and IT management. Potential energy savings are high. The branch office of Liechtensteinische Landesbank in Eschen (FL) has set standards in this area for the Rhine Valley region since December 2012. The LLB data processing centre, which was built according to the American Uptime Institute's Tier III Certification of Design, is an extremely secure data centre. This means that highly sensitive business data are perfectly protected.

Our data processing centre, however, not only has one of the highest security standards of the region, it also reflects a clear commitment to "Green IT". All building elements – from construction, to insulation and the architectural design of the building – were carefully matched to each other in order to increase energy efficiency. Since the

This page includes, inter alia, the following GRI standard indicator (2016 version): 102-48.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 75.

middle of 2013, we have reduced power consumption substantially and consequently lowered our CO_2 emissions.

The power consumption of the cooling devices plays an essential part in terms of power usage effectiveness (PUE). We aim to achieve a PUE value of below 1.5, which would be half the original energy usage. By 2013, we had already achieved a PUE value of 1.54. In 2017, we achieved a PUE of 1.48 (2016: 1.40).

Energy-efficient branch offices

Sustainable construction is based on the interaction between ecology and technology and is becoming the standard. The building that houses the Eschen branch office complies with the Minergie standard. The energy-efficient design of the branch office in the data processing centre enabled the energy consumption of our buildings in Liechtenstein to be reduced substantially.

Our main buildings are responsible for the bulk of energy consumption. Since two of our business premises in Vaduz (headquarters and Haus Wuhr Ost) are equipped with photovoltaic systems, we generate a small part of our electric power in an environmentally friendly manner. In 2017, the PV systems produced 8'930 kilowatt-hours (2016: 10'170 kWh). The amount of electricity produced was lower compared to 2016 due to the sale of Haus Engel in Vaduz, which also produced solar energy, in June 2017.

Energetic renovation of buildings

We are increasing the energy efficiency of our branch offices by means of various measures. Bank Linth, for instance, has set itself the goal of refurbishing all nineteen branch offices according to its "bank of the future" concept by the year 2020 (see chapter "Retail & Corporate Banking", page 34; "Employees", page 57).

Whereas the Bank Linth branch offices in Pfäffikon (SZ), Kaltbrunn (SG) and Schmerikon (SG) were built in accordance with the Minergie standard, the headquarters of Bank Linth in Uznach (SG) were completely renovated in 2017. This will bring about a massive improvement in energy efficiency and a reduction in power consumption. Furthermore, an agreement has been made with the power plant in Uznach whereby half of the energy drawn must come from renewable energy.

In addition, the air-conditioning system of the Bank Linth building in Rapperswil was updated in 2017. Detailed assessments showed that when the building was constructed in 1969, materials containing asbestos had been used. In the summer of 2017, the building was completely renovated, inside and out, and the hazardous waste was disposed of properly. There was no risk to health.

In order to identify further potential for optimisation, we measure the thermal insulation values of our buildings. In 2017, we set about replacing the glass in the windows, the rubber seals and the blinds in Haus Äule. The work should be completed by early 2018.

Promotion of sustainable construction

Due to uncertainty about costs for conventional energy sources, energy and ecological considerations are becoming increasingly important for new buildings and building refurbishments. Furthermore, environmental regulatory pressure is mounting and the people living in Liechtenstein and eastern Switzerland are also becoming more ecologically aware. The LLB Group actively supports sustainable construction and provides eco mortgages and renovation mortgages that promote the efficient and sparing use of resources. Clients benefit from a preferential rate of interest for investment in new buildings that comply with the Minergie, passive house or other comparable standards for alternative energy.

Electric charging points

We want to promote electromobility by installing electric charging points. We plan to install nine electric charging points at six locations in Liechtenstein during the first quarter of 2018. The charging points will be primarily for use by our employees who drive to work in an electric car, but will also be available to our clients.

Reduction in operational CO_2 emissions

Our commitment to climate protection is bearing fruit. We have made progress thanks to sustainable mobility and the energy efficiency of our IT infrastructure and buildings. The LLB Group's investment in the promotion of the use of public transport contributed, out of all LLB employees, to 248 coming to work in Vaduz by bus, bike or on foot in 2017 (2016: 246). Efficiency measures at our data processing centre have enabled us to reduce our CO_2 emissions since 2013. Group-wide CO_2 emissions fell from 904 tonnes in 2015 to 885 tonnes in 2016. The figure for 2017 was 951 tonnes, whereby our business location in Vienna was also included in the data collection for the first time.

Climate foundations

We are convinced that actions driven by sustainability and responsibility increase the value of the LLB Group and have an impact that extends beyond our own company. We promote small and medium-sized enterprises (SMEs) that contribute to climate protection. LLB is a partner of the independent non-profit LIFE Climate Foundation Liechtenstein (since 2009) and the Swiss Climate Foundation (since 2012). The Swiss Climate Foundation has awarded CHF 575'015 to 40 SMEs in Liechtenstein from the start of the cooperation through to January 2018.

That is why LLB belongs to a group of 27 partner firms that pool their resources to promote SMEs in Switzerland and Liechtenstein. The companies do this in an uncomplicated and efficient manner and, through their activities, help to protect the climate. LLB refunds of CO_2 contributions from Liechtenstein made to the Climate Foundation are used to support new products and technological developments that contribute to climate protection as well as energy-saving projects.

Energy consumption and greenhouse gas emissions [1,2]

	2017	2016
Energy consumption (in MWh)	**6'760**	**6'374**
Electricity	5'080	4'956
District heating	356	349
Total heating fuels	1'156	875
Heating oil	233	233
Natural gas [3]	923	642
Total motor fuels	167	193
Diesel (vehicles and emergency power generator testing)	131	151
Petrol (vehicles)	36	42
CO_2 emissions (in tCO_2e) [4]	**951**	**885**
Scope 1 total [5]	300	249
Heating fuels	252	194
Motor fuels	44	51
Volatile gases (refrigerants)	4	4
Scope 2 total [6]	651	636
Electricity [7]	572	558
District heating	79	78

1) Business locations in Liechtenstein, Vienna and Bank Linth. Our business location in Vienna was included in the data collection for the first time, whereby the data for 2017 was estimated on the basis of consumption in the previous year. As a result of the inclusion of our business location in Vienna, the key figures for 2016 were also recalculated retrospectively.
2) The recording of data on heat consumption is partly incomplete and is being optimised.
3) The natural gas consumption of two new rental properties in Liechtenstein was estimated on the basis of consumption in the previous year. Natural gas consumption was substantially lower in 2016 due to the refurbishment of Bank Linth's headquarters; following its completion, consumption was significantly higher in 2017.
4) Greenhouse gas emissions calculated using Greenhouse Gas Protocol Guidelines.
5) Greenhouse gas emissions from own heating boilers, motor fuels and air-conditioning systems.
6) Greenhouse gas emissions produced from production of purchased electricity and district heating.
7) Reported using location-based approach following Greenhouse Gas Protocol Scope 2 Guidance, used as an approximation for the market-based approach.

Sustainability report

The LLB Group considers sustainability or corporate social responsibility (CSR) to be an integral part of its business success. We want to create long-term added value for our clients, shareholders, employees and other stakeholder groups. Moreover, we are committed to responsible corporate governance, which includes our economic, ecological and social performance. Sustainability topics occupy an important place in our Annual Report.

To provide even more transparency for our stakeholder groups, we prepared our sustainability reporting for the 2017 report year according to the standards of the Global Reporting Initiative (GRI). GRI, a non-governmental organisation, develops standards that provide companies with a systematic framework for communicating corporate responsibility in a transparent and comparable manner. GRI is the most widely used comprehensive sustainability reporting standard in the world. The GRI standards provide for a focus on topics material to business activity.

This report has been prepared in accordance with the GRI standards: Core option. The report was submitted to the GRI Materiality Disclosure Service and confirmation of its successful alignment with GRI standards was issued on 2 March 2018. By submitting its CSR reporting in accordance with GRI standards, LLB meets the current requirements: Following the amendment of Liechtenstein's Persons and Companies Act (PGR), capital market-oriented corporations as well as large credit institutions and insurance companies that have more than 500 employees have been required since 2017 to disclose information about their Corporate Social Responsibility (CSR) performance in their annual report.

The Annual Report 2017 includes all companies with a 100 percent equity interest (see "Scope of consolidation", page 177) as well as Bank Linth LLB AG, unless explicitly noted otherwise.

The systematic identification of key sustainability topics for the LLB Group and its stakeholder groups can be found on page 67. The key topics are structured according to the topic groups: market performance, compliance, responsibilities for society and the environment, as well as employees. As far as the data situation allows, this report covers all topics considered material.

As regards material boundaries, all the topics listed are relevant to the whole LLB Group as well as to stakeholder groups particularly interested in the success of the company – such as shareholders and employees. They influence business risks and opportunities, including the company's reputation, which can impact the success of the business.

Materiality outside of the LLB Group depends on the various stakeholder groups in our value creation chain. Topics related to market performance and compliance are relevant to our clients. Topics related to regulations are material to the supervisory authorities. Topics related to responsibilities for society and the environment are relevant to our neighbours, the Principality of Liechtenstein as well as environmental and social organisations. Topics in the area of employees are material to them and our clients. The competence and motivation of the people in the LLB Group substantially determine the quality of the services we provide for our clients.

Information on management approaches to sustainability can be found at **ar2017.llb.li/gri-content-index**.

This page includes, inter alia, the following GRI standard indicators (2016 version): 102-45, 102-46, 102-49, 102-54.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 75.

GRI Content Index

GRI Materiality Disclosures Liechtensteinische Landesbank AG
March 2018 Service

Universal standards

Reference	Page number / Information
GRI 101: Foundation (2016)	
GRI 102: General Disclosures (2016)	
Organizational Profile	
GRI 102-1	Liechtensteinische Landesbank AG
GRI 102-2	25
GRI 102-3	Vaduz, Liechtenstein
GRI 102-4	39
GRI 102-5	50
GRI 102-6	39
GRI 102-7	Cover, 56
GRI 102-8	56, 58, 59, 61
GRI 102-9	71
GRI 102-10	none
GRI 102-11	MA p. 2
GRI 102-12	62
GRI 102-13	41, 47, 67, 69
Strategy	
GRI 102-14	3
Ethics and Integrity	
GRI 102-16	25
Governance	
GRI 102-18	76
Stakeholder Engagement	
GRI 102-40	66
GRI 102-41	none
GRI 102-42	66
GRI 102-43	34, 66
GRI 102-44	66
Reporting practice	
GRI 102-45	74
GRI 102-46	74
GRI 102-47	67, 75
GRI 102-48	71
GRI 102-49	74
GRI 102-50	Calendar year 2017
GRI 102-51	March 2017
GRI 102-52	annually
GRI 102-53	kornelia.pfeiffer@llb.li
GRI 102-54	74
GRI 102-55	75
GRI 102-56	none

Topic-specific standards

Reference	Page number / Information	Reasons for omission
GRI 200: Economic		
GRI 201: Economic Performance (2016)		
GRI 103-1/2/3	MA p. 3	
GRI 201-1	68	
GRI 201-3	60	
GRI 201-4	68	
GRI 202: Market Presence (2016)		
GRI 103-1/2/3	MA p. 3	
GRI 202-2	56	
GRI 203: Indirect Economic Impacts (2016)		
GRI 103-1/2/3	MA p. 4	
GRI 203-2	56	
GRI 204: Procurement Practices (2016)		
GRI 103-1/2/3	MA p. 4	
GRI 204-1	71	
GRI 205: Anti-corruption (2016)		
GRI 103-1/2/3	MA p. 5	
GRI 205-1	64, MA p. 5	
GRI 205-2	64, MA p. 5	
GRI 205-3	no incidents	
GRI 300: Environmental		
GRI 302: Energy (2016)		
GRI 103-1/2/3	MA p. 6	
GRI 302-1	73	
GRI 302-4	72	
GRI 305: Emissions (2016)		
GRI 103-1/2/3	MA p. 6	
GRI 305-1	73	
GRI 305-2	73	
GRI 305-5	72	

Reference	Page number / Information	Reasons for omission
GRI 400: Social		
GRI 401: Employment (2016)		
GRI 103-1/2/3	MA p. 8	
GRI 401-1	61	
GRI 402: Labor / Management Relations (2016)		
GRI 103-1/2/3	MA p. 8	
GRI 402-1	56	MA p. 8
GRI 403: Occupational Health and Safety (2016)		
GRI 103-1/2/3	MA p. 9	
GRI 403-1	60	
GRI 403-2	57	
GRI 404: Training and Education (2016)		
GRI 103-1/2/3	MA p. 10	
GRI 404-1	59	
GRI 404-2	60	
GRI 404-3	60	
GRI 405: Diversity and Equal Opportunity (2016)		
GRI 103-1/2/3	MA p. 11	
GRI 405-1	59	
GRI 405-2	61	MA p. 11
GRI 413: Local Communities (2016)		
GRI 103-1/2/3	MA p. 12	
GRI 413-1	69	
FS13	32	
GRI 417: Marketing and Labeling (2016)		
GRI 103-1/2/3	MA p. 13	
GRI 417-1	42	
GRI 417-3	no violations	
FS16	35	
GRI 418: Customer Privacy (2016)		
GRI 103-1/2/3	MA p. 14	
GRI 418-1	63	
GRI 419: Socioeconomic Compliance (2016)		
GRI 103-1/2/3	MA p. 15	
GRI 419-1	no penalties	
GRI G4: Sector Disclosures		
Product Portfolio		
GRI 103-1/2/3	MA p. 17	
FS7	33, 68	
FS8	72	

Unless otherwise stated, the page numbers in the index are based on this report. In some cases, disclosures are given in our online document on management approaches to sustainability, which is published in our online Annual Report at ar2017.llb.li/gri-content-index. In this case, the relevant page numbers are marked with DMA.

This page includes, inter alia, information on GRI standard indicator 102-48 (2016 version).

Organisational structure of the LLB Group

on 1 January 2018

Board of Direcotors* – Georg Wohlwend

Group Internal Audit – Patrick Helg

* **Board of Directors**
- Georg Wohlwend, Chairman
- Markus Foser, Vice Chairman
- Markus Büchel
- Patrizia Holenstein
- Urs Leinhäuser
- Gabriela Nagel-Jungo
- Roland Oehri

** **Group Board of Management**
- Roland Matt, Group CEO
- Urs Müller, Vice Group CEO
- Gabriel Brenna
- Natalie Epp
- Christoph Reich
- Kurt Mäder

Divisions	Business Areas			
Group Board of Management** – Group CEO – **Roland Matt**	Group Corporate Communications & General Secretary – **Cyrill Sele**	Group Marketing – **Michaela Alt**	Group Human Resources – **Bernd Moosmann**	
Retail & Corporate Banking – **Urs Müller**	Retail & Corporate Banking Schweiz – **David B. Sarasin**	Retail & Corporate Banking Liechtenstein – **Eduard Zorc**		
Private Banking – **Gabriel Brenna**	Private Banking Liechtenstein – **Martin Heutschi**	Private Banking Schweiz – **Luc Schuurmans**	Private Banking Deutschland / Österreich – **Boris Wistawel**	Private Banking Österreich – **Robert Löw**
Institutional Clients – **Natalie Epp**	Financial Intermediaries – **Norman Marxer**	Fund Services – **Bruno Schranz**	Asset Management – **Markus Wiedemann**	
Group CFO – **Christoph Reich**	Group Finance – **Benno Schwitter**	Group Credit & Risk Management – **Martin Kaindl**	Group Legal & Compliance – **Roger Dornier**	CFO Bank Linth LLB – **Urs Isenrich**
Group COO – **Kurt Mäder**	Group Corporate Development – **Selim Alantar**	Group IT – **Stephan Schmidle**	Group Operations & Services – **Sascha Strazzer**	COO Bank Linth LLB – **Roland Greber**

Group companies

on 1 January 2018

Liechtensteinische Landesbank (Österreich) AG (100 %)

Board of Directors

- Gabriel Brenna, Chairman
- Christoph Reich, Vice Chairman
- Kurt Mäder

Board of Management

- Robert Löw, Chairman
- Gerd Scheider

LLB Asset Management AG (100 %)

Board of Directors

- Natalie Epp, Chairman
- Gabriel Brenna, Vice Chairman
- Christoph Reich
- Urs Müller

Board of Management

- Markus Wiedemann, Managing Director
- Christian Zogg

Bank Linth LLB AG (74.2 %)

Board of Directors

- Ralph Peter Siegl, Chairman
- Urs Müller, Vice Chairman
- Gabriel Brenna
- Beatrix Frey-Eigenmann
- Karin Lenzlinger Diedenhofen
- Kurt Mäder
- Christoph Reich

Board of Management

- David B. Sarasin, Chairmanr
- Urs Isenrich, Vice Chairman
- Roland Greber
- Luc Schuurmans

LLB Fund Services AG (100 %)

Board of Directors

- Natalie Epp, Chairman
- Martin Alge, Vizepräsident
- Peter Meier

Board of Management

- Bruno Schranz, Managing Director
- Roland Bargetze
- Thomas Mähr

LLB Verwaltung (Schweiz) AG (100 %)

Board of Directors

- Christoph Reich, Chairman
- Kurt Mäder, Vice Chairman
- Martin Alge

Private Banking Middle East

Ludovic Pernot

Private Banking Central Eastern Europe

Jean-Marie Deluermoz

Group Product Management

Ivan Ziegler (as of 1 June 2018)

CFO LLB AT

Gerd Scheider

COO LLB AT

Gerd Scheider

Corporate governance

Corporate governance is an essential part of the LLB Group's corporate policy. It ensures responsibilities, control and transparency. The fundamental basis for the Group's corporate governance are the SIX Swiss Exchange's Direct Corporate Governance (DCG), the Liechtenstein law concerning the control and supervision of public companies (ÖUSG), the Law on the Liechtensteinische Landesbank (LLBG) as well as their statutes and rules of procedure.

Basis

Our responsibly minded management, which is focused on long-term added value, is characterised by efficient cooperation between the Group Executive Board and the Board of Directors, by transparent accounting and reporting as well as by good shareholder relations.

The principles and directives defining corporate governance are laid down in two laws: "the law concerning the control and supervision of public companies" (ÖUSG) of 19 November 2009 and the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992. In addition, they are laid down in the statutes and rules of procedure of the LLB. These documents are based on the directives and recommendations of the "Swiss Code of Best Practice for Corporate Governance" issued by the Swiss Business Federation (economiesuisse).

On 22 November 2011, the Liechtenstein Government as the representative of the principal shareholder, the Principality of Liechtenstein, adopted – with reference to the ÖUSG Law – a so-called participation strategy for Liechtensteinische Landesbank AG. This strategy defines how the Principality intends to deal with its majority shareholding in the medium and long term and therefore also provides minority shareholders with certainty in planning.

The Government commits itself to the stock exchange listing of the LLB and a majority participation of at least 51 percent. The Government represents the shareholder interest of the Principality at the General Meeting of Shareholders pursuant to the rights afforded to it by stock corporation law. It observes corporate autonomy as well as the rights and obligations resulting from the stock exchange listing. At the same time, as a shareholder it also respects the decision-making authority of the Board of Directors concerning corporate strategy and corporate policy. In accordance with Art. 16 of the ÖUSG Law, the participation strategy was adopted after consultation with the LLB's Board of Directors. Further information can be found at **www.llb.li/participation-strategy**.

The General Meeting of Shareholders on 8 May 2015 resolved to further, substantially strengthen shareholder rights by approving, in particular, the expansion of the rights of shareholders to include items on the agenda and make proposals, and they introduced the option of postal voting and electronic voting as well as electronic delegation of proxies. Following the revision of the Statutes, and on account of the StepUp2020 strategy, in November 2015 the Board of Directors undertook a revision of the rules of procedure, which came into force on 1 January 2016.

The General Meeting of Shareholders of 12 May 2017 approved the conversion of the previous bearer shares into registered shares. This step enables LLB to conform to the international trend towards more transparency regarding the shareholder structure. The share exchange took place on 18 May 2017.

The Board of Directors of the LLB Group has held the "Best Board Practice" label of the Swiss Association for Quality and Management Systems (SQS) and the Liechtenstein Association for Quality Assurance Certificates (LQS) since December 2010. The business activities and organisation of the Board of Directors exhibit a high level of quality. In December 2016, within the scope of their reassessment, both SQS and LQS reconfirmed the evaluation of the good quality and transparency of the bank's corporate governance. The Board of Directors was once again awarded the "Best Board Practice" label for a further three years. The continuity reassessment in 2017 reconfirmed yet again that activities and organisation of the LLB Board of Directors continue to exhibit a constantly high level of quality and consistently fulfil the Best Board Practice criteria.

The following corporate governance report complies with the requirements of the Corporate Governance Directive (RLCG) of the SIX Swiss Exchange Regulation, status 13 December 2016, as well as the fully revised guidelines of the Six Exchange Regulation regarding the RLCG of 10 April 2017. If information required by the RLCG is disclosed in the Notes to the financial statement, a corresponding reference is shown.

1 Group structure and shareholders

1.1 Group structure

1.1.1 Description of the operative structure

The Liechtensteinische Landesbank is a public company ("Aktiengesellschaft") according to Liechtenstein law. It is the parent company of the LLB Group, which is based on a parent company structure.

The LLB Group has an organisational structure based on market divisions which is geared towards client and market needs. Besides the three market divisions "Retail & Corporate Banking", "Private Banking" and "Institutional Clients", the management structure encompasses the functions of Group Chief Executive Officer (Group CEO), Group Chief Financial Officer (Group CFO) and Group Chief Operating Officer (Group COO).

The rules of procedure adopted by the Board of Directors, in particular, the functions diagram in the appendix ensure the proper conduct of business, the appropriate organisation, as well as the uniform management of the LLB Group. In accordance with the functions diagram, the Board of Directors, the Chairman of the Board of Directors, the committees of the Board of Directors, the Group CEO and the Group Executive Board are decision-making authorities.

The functions of the Board of Directors and the Group Executive Board of the LLB Group are combined with those of the Board of Directors and the Board of Management of the LLB parent company. Within the scope of the duties and powers defined by the rules of procedure and the functions diagram, the above-mentioned authorities can make decisions and issue rulings that are binding for both the parent company and the LLB Group companies – but taking into consideration the provisions of current local law applicable to the individual Group companies.

The members of the Group Executive Board are represented on the Boards of Directors of the consolidated companies. A member of the Group Executive Board serves as the Chairman of the Board of Directors of a subsidiary company with the exception of Bank Linth LLB AG.

The organisational structure of the LLB Group as at 1 January 2018 is shown on pages 76 to 77. The detailed segment reports are shown on pages 33 to 49 and 139 to 141.

1.1.2 Listed companies included in the scope of consolidation

The Liechtensteinische Landesbank, with its headquarters in Vaduz, is listed on the SIX Swiss Exchange. As at 31 December 2017, its market capitalisation stood at CHF 1'529.2 million (30'800'000 registered shares at a nominal value of CHF 5.00 at a year-end price of CHF 49.65).

Bank Linth LLB AG, with its headquarters in Uznach, in which the Liechtensteinische Landesbank holds a majority equity stake of 74.2 percent, is also listed on the SIX Swiss Exchange. As at 31 December 2017, its market capitalisation stood at CHF 409.1 million (805'403 registered shares with a nominal value of CHF 20.00 at a year-end price of CHF 508.00).

1.1.3 Unlisted companies included in the scope of consolidation

Details of the unlisted companies included in the scope of consolidation (company, registered office, activities, share capital and equity interest) can be found in the Notes to the consolidated financial statement of the LLB Group in the table "Scope of consolidation" on page 177.

1.2 Major shareholders

The Principality of Liechtenstein is the major shareholder of the Liechtensteinische Landesbank. The Law on the Liechtensteinische Landesbank states that – in terms of capital and voting rights – the Principality of Liechtenstein must hold at least 51 percent of the shares. These may not be sold.

At the end of 2017, the Principality's equity stake in the shares of the Liechtensteinische Landesbank remained unchanged at 57.5 percent. Detailed information about the development of this equity stake can be found at **www.llb.li/capital+structure**. Less than 0.1 percent of the shares were held by members of the Board of Directors and the Group Executive Board, while the LLB Group held 1'922'937 or 6.2 percent of its own shares.

The remaining registered shares were in free float, whereby none of the other shareholders held more than 3 percent of the share capital. There are no binding shareholder agreements .

1.3 Cross participations

There are no cross participations between Liechtensteinische Landesbank AG and its subsidiaries or third parties.

Company	Reg. office	Listed on	Market capitalisation (in CHF thousands)	Stake (in %)	Segment	Security number	ISIN number
Liechtensteinische Landesbank AG	Vaduz	SIX Swiss Exchange	1'529'220		International Reporting Standard	35514757	LI0355147575
Bank Linth LLB AG	Uznach	SIX Swiss Exchange	409'145	74.2	Swiss Reporting Standard	130775	CH0001307757

2 Capital structure

2.1 Capital

The 25th ordinary General Meeting of Shareholders on 12 May 2017 resolved to convert the previously listed bearer shares into registered shares having the same nominal value. The share exchange took place on Thursday, 18 May 2017 at the ratio of 1:1. Consequently, the share capital of the Liechtensteinische Landesbank comprised 30'800'000 registered, fully paid shares with a nominal value of CHF 5.00 each and therefore amounted to CHF 154.0 million.

2.2 Conditional and approved capital

On the balance sheet date, the Liechtensteinische Landesbank had no conditional capital and no approved capital

2.3 Changes to capital

Details regarding changes to capital during the last three report years are shown in the table "Consolidated statement of changes in equity" on page 125.

2.4 Shares and participation certificates

As at 31 December 2017, the share capital amounted to 30'800'000 fully paid registered shares with a nominal value of CHF 5.00. With the exception of the LLB shares held by the Liechtensteinische Landesbank and its subsidiaries (1'922'937 shares), all the shares are eligible for dividend. As at 31 December 2017, share capital eligible for dividend therefore amounted to CHF 144.4 million. In principle, all LLB shares are eligible for voting according to the principle of "one share, one vote". However, on account of the regulations concerning the purchase of own shares (Art. 306a ff. PGR / Liechtenstein Person and Company Law), the shares held by Liechtensteinische Landesbank and its subsidiaries are not eligible for voting. There are no priority rights or similar entitlements. Shareholders have a subscription right with the issue of new shares, which entitles them to subscribe to new shares in proportion to the number of shares they already hold.

Liechtensteinische Landesbank AG has not issued participation certificates.

2.5 Profit-sharing certificates

Liechtensteinische Landesbank AG has no outstanding profit-sharing certificates

2.6 Transfer limitations and nominee registrations

The registered shares of Liechtensteinische Landesbank are fully transferable, whereby the Principality of Liechtenstein holds at least 51 percent of the capital and voting rights, and may not sell this equity stake.

The Liechtensteinische Landesbank maintains a share register containing the names of the owners of registered shares. Upon request, the purchasers of registered shares are entered in the share register as shareholders having a voting right provided that they expressly render a declaration that they have purchased these shares in their own name for their own account. If the purchaser is not prepared to render such a declaration, the Board of Directors can refuse to enter the shares with voting rights in the register. Pursuant to Art. 5a of the Statutes (**www.llb.li/statutes**), the Board of Directors has specified that nominee registrations without the above-mentioned declaration are generally to be made without a voting right. The legal refusal of registration in the share register on important grounds remains reserved.

2.7 Convertible bonds and options

As at 31 December 2017, the Liechtensteinische Landesbank had no bonds or convertible bonds or options on its own shares outstanding.

3 Board of Directors

3.1 Members

a) Name, nationality, education and professional career

Name	Year of birth	Profession	Nationality
Georg Wohlwend *	1963	Business economist	FL
Markus Foser **	1969	Business consultant	FL
Markus Büchel	1953	Human resources manager (retired)	FL
Patrizia Holenstein	1957	Lawyer	CH
Urs Leinhäuser	1959	Business economist	CH
Gabriela Nagel-Jungo	1969	Professor of financial management	CH
Roland Oehri	1968	Fiduciary	FL

* Chairman
** Vice Chairman

Pursuant to the limitation of the term of office stipulated in the Landesbank Law, the eleven-year term of office of Hans-Werner Gassner as Vice Chairman of Board of Directors ended at the General Meeting of Shareholders on 12 May 2017. The General Meeting of Shareholders elected Georg Wohlwend as new Chairmen of the Board for a term of office of three years, In addition, it confirmed Gabriela Nagel-Jungo and Urs Leinhäuser as members of the Board of Directors for a further term of office of three years.

Education:
Licentiate in economics, University of Zurich, field of study information systems, 1991; International Professional Development Program at the University of Tulsa (USA) 1992; Swiss Banking School, 1999; EFQM Assessor, 2007; Management training at the University of St. Gallen, 2008; Taxation training at the University of Liechtenstein, 2012; Swiss Board School, St. Gallen, 2014

Professional career:
Working scholarship of Martin Hilti Foundation at Hilti, Tulsa (USA), 1992–1993; Employee in the Organisation Department of VP Bank AG, Vaduz, 1994–1996; Deputy Head Logistics at VP Bank AG, Vaduz, 1998–2000; Member of the Management Board and Head Logistics at VP Bank AG, Vaduz, 1998–2000; Member of the Management Board and Head Trust Banking at VP Bank AG, Vaduz, 2000–2006; Member Group Executive Management and Head Intermediaries at VP Bank AG, Vaduz, 2006–2010; Member Group Executive Management and Head Banking Liechtenstein and Regional Market at VP Bank AG, Vaduz, 2010–2012; Partner and Member of the Executive Board of Salmann Investment Management AG, Vaduz, 2013–2014

Education:
Business economist (Dipl. Betriebsökonom HWV), 1983 IMD Lausanne, SSE 1998

Professional career:
Tax inspector, Tax Office of Canton Schaffhausen, 1983–1986; Deputy Head of Tax Department, Refidar Moore Stephens AG, Zurich, 1986–1988; Group Controller and Managing Director Cerberus Denmark (1992) at Cerberus AG, Männedorf, 1988–1994; Head of Group Controlling and CFO of Piping Systems Division, Georg Fischer AG, Schaffhausen, 1995–1999; CFO and Member of the Group Executive Board, Mövenpick Holding AG, Adliswil, 1999–2003; CFO and Head of Corporate Center and Member of Corporate Management, Rieter Holding AG, Winterthur, 2003–2011; CFO and Deputy CEO and Member of Corporate Management, Autoneum Holding AG, Winterthur, 2011–31 March 2014; Businessman, since 1 April 2014; Managing Partner of ADULCO GmbH, Winterthur, since 2016

Gabriela Nagel-Jungo

Education:
Licentiate in economics, University of Zurich, 2001; Teaching diploma in business subjects, 2004; Dr. oec. publ., University of Zurich, 2007; Professor of Financial Management, awarded by ZFH, 2011

Professional career:
Semester assistant at the Chair for Business Administration, Swiss Federal Institute of Technology (ETH) Zurich, 1998–1999; Head of Financial Accounting and Payroll, netto-netto AG, Wetzikon, 2002–2005; Assistant at the Institute for Accounting and Controlling (Prof. Dr. C. Meyer), University of Zurich, 1999–2007; Lecturer and project leader, Zurich University of Applied Sciences, since 2007; Head of the Centre for Accounting & Controlling, Zurich University of Applied Sciences, since 2010 (2016 upgraded to "Institute for Financial Management") ; Deputy Head of the Department of Banking, Finance, Insurance, Zurich University of Applied Sciences, since 2011

Markus Foser

Education:
Licentiate in economics, major in business IT, University of Zurich, 1996; Swiss federal diploma in financial analysis and asset management CEFA, 2000

Professional career:
Equity research and fund management, Liechtensteinische Landesbank, 1997–2002; Advisor to mainly institutional clients with derivative and structured products, Bank Vontobel (Liechtenstein) AG, Vaduz, 2002–2003; Head of Fund & Investment Services (Asset Management), swissfirst Bank (Liechtenstein) AG, Vaduz, 2004–2007; Member of the Executive Board, Banque Pasche (Liechtenstein) SA, Vaduz, responsible for Fund & Investment Services (Asset Management), 2008–2009; Proprietor, MAFOS Consult Anstalt, Vaduz, 2009–2013; First Advisory Trust reg., Strategic Projects & Business Development, since 2012

Roland Oehri

Education:
Commercial apprenticeship, 1987; Federally qualified business economist FH, 1993; Liechtensteinische trustee and fiduciary examinations, 1998

Professional career:
Investment advisor, Foreign Private Clients Department, VP Bank AG, Vaduz, 1993–1999; Head of Foreign Private Clients Department, VP Bank AG, Vaduz, 1999; Client advisor, Private Trust Banking, VP Bank AG, Vaduz, 2000; Client advisor and Head of Intermediaries Department, Bank Wegelin (Liechtenstein) AG, Vaduz, later swissfirst Bank (Liechtenstein) AG, Vaduz, 2000–2003; Vice President of LOPAG Louis Oehri & Partner Trust reg., Ruggell, 2004–2009; Partner and Managing Director, Sequoia Treuhand Trust reg., Ruggell, since 2006; Partner and Managing Director, Sequoia Capital Management AG, Ruggell, since 2007

Patrizia Holenstein

Education:
Licentiate in law, University of Zurich, 1980; Dr. iur. University of Zurich, 1981; Admitted to the Zurich bar, 1985; LLM, London School of Economics, 1989

Professional career:
Lecturer at the University of Zurich, 1981–1984; Clerk, District Court of Zurich and Supreme Court of the Canton of Zurich, 1981–1985; Lawyer, Haymann & Beglinger, Zurich, 1985–1988; Lawyer, Clifford Chance London (Banking Department), London 1989–1990; Holenstein Rechtsanwälte AG, Zurich, Founder and Managing Partner, since 1990

Markus Büchel

Education:
Apprenticeship as mechanical draughtsman, 1969–1973; Commercial college Buchs, 1973–1974; Mechanical engineer (Dipl. Ing. FH), Abendtechnikum Vaduz, 1974–1978

Professional career:
Hilti AG, Schaan (various technical functions), 1973–1981; ThyssenKrupp Presta AG, Eschen, development / engineering (various functions), 1981–1991; ThyssenKrupp Presta AG, Eschen, Head of Technical Services, 1991–1995; ThyssenKrupp Presta AG, Eschen, Head of Human Resources of the Presta Group, 1995–2013 (Retirement)

b) Executive / non-executive members
All members of the Board of Directors of Liechtensteinische Landesbank AG are non-executive member. Pursuant to Art. 22 of the Liechtenstein banking law in connection with Art. 10 of the Law on the Liechtensteinische Landesbank, various special bodies must be constituted for the direction, supervision and control of a bank, on the one hand, and for the Board of Management or Group Executive Board, on the other hand. No member of the Board of Directors is allowed to be a member of the Board of Management or Group Executive Board.

c) Independence
All members of the Board of Directors are independent within the context of the Swiss Exchange "Directive Corporate Governance" concerning corporate governance information. In 2017, as well as in the three previous years, no member of the Board of Directors was a member of the Group Executive Board or the Board of Management of the Liechtensteinische Landesbank or a Group company. No member of the Board of Directors had significant business relationships with the Liechtensteinische Landesbank or a Group company. In accordance with Art. 12 of the Liechtenstein law concerning the control and supervision of public companies, all contracts with the members of the Board of Directors must be in writing and they must be approved by the Board of Directors. The same conditions apply to contracts concluded with third parties.

3.2 Other activities and commitments
Georg Wohlwend is a member of the Board of Directors of Neutrik AG, Schaan, and of Seed X Liechtenstein AG, Schaan, as well as Chairman of the Board of Directors of Alegra Capital AG, Vaduz.

Markus Foser is a Member of the Board of Directors of Ameliora Wealth Management AG, Zurich.

Markus Büchel is a Member of the Board of Directors of Verwo AG, Reichenburg, and a Member of the Executive Committee of the Progressive Party.

Patrizia Holenstein is a Member of the Board of Directors of Argos Holding AG, Sarnen, as well as of Oase Holding AG, Baar und Bellerive Estates AG, Zurich.

Urs Leinhäuser is a Member of the Board of Directors of Burckhardt Compression Holding AG, Winterthur, of Ammann Group Holding, Berne, of VAT Group, Haag, as well as Chairman of the Board of Directors of AVESCO AG, Langenthal, and Member of the Management Committee of the Institute for Financial Management and Financial Law of the University of St. Gallen.

Gabriela Nagel-Jungo is a Member of the Board of Directors of Ruetschi Technology AG, Muntelier, and of the Building Insurance Institute of Canton Zurich.

Roland Oehri is a Member of the Board of Directors of RFINANZ (Liechtenstein) AG, Ruggell.

Otherwise the Members of the Board of Directors are not involved in the management or supervisory boards of important Liechtenstein, Swiss or foreign private or public law corporations, establishments or foundations, nor do they exercise any permanent management or consultancy functions for important Liechtenstein, Swiss or foreign interest groups, nor do they perform official functions or hold political office.

3.3 The number of permitted activities
Liechtensteinische Landesbank AG is not subject to the Swiss ordinance against excessive compensation in listed public companies (OaEC). Liechtensteinische Landesbank AG has not issued any regulations on the number of permitted activities.

3.4 Election and term of office

3.4.1 Principles governing the election procedure
In accordance with the Law on the Liechtensteinische Landesbank of 21 October 1992, the Board of Directors of the Liechtensteinische Landesbank is composed of five to seven members, who are elected individually by the General Meeting of Shareholders for a term of office of three years; whereby a year corresponds to the period from one ordinary General Meeting of Shareholders to the next. Members can be re-elected for a further two terms. After three terms of office, the Chairman of the Board of Directors can – in justified cases – be re-elected for an extraordinary term of office of at most two years.

The 12th ordinary General Meeting of Shareholders on 7 May 2004 passed an amendment to the statutes that allowed for the staggered renewal of the Board of Directors in order to preclude a complete renewal of the Board. Furthermore, the "Group regulation concerning the Group Nomination & Compensation Committee" (see point 3.5.2 "Composition of all Board of Directors' committees, their duties and individual competences") stipulates that the Board of Directors aims at continuity through the orderly renewal of the Board, succession planning, as well as through the appropriate staggering of the terms of office (no complete renewal) pursuant to current corporate governance provisions.

The Chairman of the Board of Directors is elected by the General Meeting of Shareholders. The Vice Chairman is elected from among the members of the Board of Directors by its members. New members or the Chairman of the Board of Directors elected as substitutes shall be elected for a full term of office of three years. The General Meeting of Shareholders can dismiss members of the Board of Directors on important grounds. When nominating a new member, the Board of Directors shall ensure that this candidate will not exceed the age limit of 70 years during his period of office. Furthermore, the Board of Directors shall not propose an existing member for re-election if the person would exceed the age limit of 70 years during the new term of office.

Georg Wohlwend has been Chairman of the Board of Directors since 2017. Markus Foser has been Vice Chairman since 2009. Cyrill Sele has been Secretary (recorder of the minutes) since April 2013.

3.4.2 First-time election and remaining term of office

Name	First-time appointment	Elected until
Georg Wohlwend	2017	2020
Markus Foser	2009	2018
Markus Büchel	2009	2018
Patrizia Holenstein	2013	2019
Urs Leinhäuser	2014	2020
Gabriela Nagel-Jungo	2014	2020
Roland Oehri	2009	2018

3.5 Internal organisation

3.5.1 Separation of tasks of the Board of Directors

Name	Function	Committee memberships
Georg Wohlwend	Chairman	Group Nomination & Compensation Committee * Strategy Committee *
Markus Foser	Vice Chairman	Group Nomination & Compensation Committee Strategy Committee
Markus Büchel	Member	Group Nomination & Compensation Committee
Patrizia Holenstein	Member	Group Audit Committee Group Risk Committee
Urs Leinhäuser	Member	Group Audit Committee Group Risk Committee
Gabriela Nagel-Jungo	Member	Group Audit Comittee * Strategy Committee
Roland Oehri	Member	Group Risk Committee *

* Chairman

3.5.2 Composition of all Board of Directors' committees, their tasks and terms of reference

In accordance with the statutes, the Board of Directors may according to its discretion appoint committees. To support it in performing its tasks, the Board has so far implemented three standing committees: the Group Nomination & Compensation Committee, the Group Audit Committee and the Group Risk Committee. In addition, there is a Strategy Committee formed on an ad hoc basis. The Board of Directors elects the committee members from among its members and appoints the chairmen. The Chairman of the Board of Directors cannot be elected to the Group Audit Committee or the Group Risk Committee. Each committee is composed of at least three members. As preparatory bodies, these committees deal in detail with the tasks assigned to them, submit the results of their work to the Board of Directors and make proposals if decisions are required.

The committee members must possess the expertise for the tasks and duties they have taken on. All committee members must be independent.

Terms of office on committees correspond to the length of terms of office on the Board of Directors. Committee membership also ends when members step down from the Board of Directors.

The Board of Directors issued separate regulations for the three standing committees, which stipulate their duties and individual competencies.

The committees can invite outside persons as experts and entrust LLB staff, in particular, with administrative duties.

Group Audit Committee

The Group Audit Committee supports the Board of Directors in fulfilling the duties and responsibilities vested in it by banking law with respect to its duty to supervise and control of:

- the methodology and quality of external auditors;
- the quality and integrity of the financial reporting including the structure of the financial accounting function, the financial controlling and financial planning
- the collaboration between the internal and external auditors and their independence.

The Group Audit Committee regulation lays down the organization and workings as well as the competencies and responsibilities of the Committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Audit Committee:

Name	Function
Gabriela Nagel-Jungo	Chairman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

The Group Audit Committee has the following tasks:

- analysing the LLB Group's Consolidated Interim Report and the Annual Report as well as the financial statement of the parent bank. This encompasses the discussion of the following subject areas with the Group CFO, the Head Group Finance, the auditor in charge of the external auditors (not for the Consolidated Interim Report) and the Head of Group Internal Audit:
  - examining whether the financial reporting has been prepared in compliance with applicable accounting standards as well as the legal and regulatory provisions;
  - evaluating the quality of applicable accounting principles and processes;
  - examining and assessing how the Group Executive Board as well as the internal auditors and Group Internal Audit estimate the risk of significant misrepresentation, which are the largest risk areas and how these are monitored and what measures are taken to counter them;
- reporting to the Directors about the work undertaken in connection with the above-mentioned points.
- Petitioning the Board of Directors about whether the LLB Group's Consolidated Annual Report and the financial statement of the parent bank can be presented to the General Meeting of Shareholders and published. And as regards the Consolidated Interim Financial Report only as to whether it can be published;
- monitoring and assessing the suitability and effectiveness of the internal control system in the area of financial reporting;
- assessing the documentation regarding forthcoming amendments of the accounting principles;
- evaluating the budgeting process as well as the budget proposal for the following year;
- taking note and discussion of the risk analysis made by the external auditors, the auditing strategy derived from it and the respective risk-oriented auditing plan (including the budget for the forthcoming audit year);
- analysing the audit reports submitted by the external audit and Group Internal Audit to the Board of Directors. Discussion of the major problems identified during the auditing process with the external auditors;
- monitoring the implementation of recommendations put forward by the external auditors and Group Internal Audit and eliminate weak points and deficiencies identified by them;
- assessing the qualifications, the quality, the independence, the objectivity and the performance of the external auditors (auditors according to banking law and person and company law) and of Group Internal Audit, as well as their cooperation;
- discussion of the annual activity report and the annual audit plan including risk analysis of Group Internal Audit as well as the approval of proposals to the Group Board of Directors;
- examining the compatibility of the external auditors' auditing activities with possible consulting mandates as well as assessing and discussing their professional fees;
- submitting a proposal to the Board of Directors for the attention of the General Meeting regarding the appointment or dismissal of the external auditors (appointed according to banking law and person and company law).
- Establishment of the procedure to be followed in selecting new external auditors.

Group Risk Committee

The Group Risk Committee supports the Board of Directors in fulfilling the duties and responsibilities vested in it by banking law in regard to

- the assessment and provision of advice on the current and future overall risk tolerance and strategy of the LLB Group;
- the control and implementation of the risk strategy by the Group Executive Board;
- the examination of whether pricing of the investments and liabilities takes into reasonable consideration the business model and the risk strategy of the LLB Group and, if this is not the case, the submission of a plan of appropriate measures;
- the examination of whether the incentives offered in the compensation system take into consideration risk, capital, liquidity and the probability and timing of earnings.

The Group regulation concerning the Group Risk Committee lays down the organization and working methods as well as the competencies and responsibilities of the Committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Risk Committee:

Name	Function
Roland Oehri	Chairman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

The Group Risk Committee has the following risk-related tasks:

- monitoring the integrity and suitability of the risk management in the LLB Group, which is based on risk policy, in particular, in regard to market, credit, liquidity as well as operational risks;

- assessing the integrity and suitability of the internal control system in regard to the identification, measurement, limitation and monitoring of risks. In the areas of compliance and risk control this includes, in particular, the assessment of the precautions that are to ensure the observance of the legal (e.g. capital adequacy, liquidity and risk distribution regulations) and bank-internal (e.g. risk policy framework) provisions;
- supporting the Board of Directors to formulate and implement the risk-relevant Group rulings and directives issued by it (over-all risk policy, among others) as well as the relevant guidelines and processes that are set down in these rulings and directives;
- assessing, at least on an annual basis, the Groupwide policy on risks (e.g. risk policy framework and credit risk management) as well as other topics defined by Group Credit & Risk Management (e.g. ICAAP report, credit watch list). In doing so, the concerned authorities are to be consulted and the suggestions and proposals of the Group Executive Board are to be considered. A proposal is then to be made to the Group Board of Directors as the approving authority. Further risk-relevant Group rulings and directives that have to be approved by the Group Board of Directors are to be treated in the same manner;
- examining the risk propensity within the scope of the risk-bearing capacity statement. This is performed both from the perspective of the going concern and also of the gone concern. Based on the risk appetite, the Group Risk Committee can propose adjustments to the limits system to the Board of Directors;
- assessing the overall risk situation and supervising adherence to the limits set by the Board of Directors;
- discussing and assessing the Risk Report of the LLB Group and submission of a proposal to the Group Board of Directors as the approving authority;
- examining whether the pricing of the investments and liabilities takes into reasonable consideration the business model and the risk strategy of the LLB Group and, if this is not the case, the submission of a plan of appropriate measures;
- examining whether the incentives offered in the compensation system take into consideration risk, capital, liquidity and the probability and timing of earnings.

Group Nomination & Compensation Committee

The Group Nomination & Compensation Committee supports the Board of Directors in fulfilling the following duties and responsibilities vested in it by banking law, in particular in relation to:

- formulating the guidelines for succession planning;
- the selection and nomination of members of the Board of Directors and members of the Group Executive Board;
- the annual evaluation of the structure, size, composition and performance of the Board of Directors and the Group Executive Board, as well as the recommending of changes if necessary;
- the annual evaluation of the knowledge, abilities and experience of the individual members of the Board of Directors and the Group Executive Board, as well as its bodies. The submission of the evaluation to the Board of Directors and the Group Executive Board;
- reviewing of the procedure adopted by the Board of Directors in selecting and appointing the Group Executive Board, as well as submission of recommendations to the Board of Directors;
- formulating compensation regulations for the parent bank and the LLB Group;
- establishing the compensation of the members of the Board of Directors and the Group Executive Board, as well as of other employees, in so far as their compensation is to be determined by the Board of Directors in accordance with the compensation regulations;
- establishing the guidelines for the human resources policy.

The Group regulations concerning the Group Nomination & Compensation Committee regulate the organisation, working methods, as well as the competences and responsibilities of the committee, in so far as these are not prescribed by law, the statutes or the rules of procedure. The following persons are members of the Group Nomination & Compensation Committee:

Name	Function
Georg Wohlwend	Chairman
Markus Büchel	Member
Markus Foser	Member

On behalf of the Board of Directors and the Group Executive Board, the Group Nomination & Compensation Committee strives to achieve the following goals while complying with the applicable principles of corporate governance:

- Balanced composition of the bodies taking into consideration the professional knowledge required for the bank and personal suitability of members.
- Continuity thanks to planned renewal and succession as well as a reasonable staggering of terms of office (no complete renewal).
- Seamless transfer of office and functions thanks to a systematic introduction into the specific tasks at the bank.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the election and re-election of the member of the Board of Directors. It is responsible, in particular, for the following tasks:

- the development of criteria for the selection, election and re-election of candidates;
- the selection and evaluation of candidates as well as the submission of election proposals to the Board of Directors for submission to the General Meeting of Shareholders in accordance with the developed criteria;
- the development of succession plans and the periodic review of them, both in the case of the end of a term of office and in the case of an early stepping down of members;
- ensuring the further training of the entire Board of Directors;
- planning the introductory phase for new members;
- reviewing work practice in regard to age-related limits and term limits.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the election and re-election of the members of the Group Executive Board. It is responsible, in particular, for the following tasks:

- the development of criteria for the selection and appointment of candidates for the attention of the Board of Directors;
- the selection and evaluation of candidates as well as the submission of proposals to the Board of Directors at the request of the Group CEO in accordance with the developed criteria;
- the development and application of criteria for the performance appraisal of the Group Executive Board in corpore as well as of individual members at the request of the Group CEO;
- the development of succession plans and the periodic review of them, both in the case of the age-related or contingency stepping down of members, in collaboration with the Group CEO;
- ensuring the further training of the members of the Group Executive Board;
- reviewing work practice in regard to age-related limits.

The Group Nomination & Compensation Committee ensures an expedient and smooth procedure for the appointment and appraisal of the Head of Group Internal Audit. It has the following tasks in particular:

- the development of criteria for the selection and appointment of candidates for the attention of the Board of Directors;
- the selection and evaluation of candidates as well as the submission of proposals to the Board of Directors in accordance with the developed criteria;
- the development and application of criteria for the performance appraisal of the Head of Group Internal Audit.

The nomination of delegates in the Board of Directors' committees of the LLB Group and associated companies should ensure the implementation of the Group strategy and a uniform external perception of the LLB Group. At the request of the Group Executive Board, the Group Nomination & Compensation Committee submits appointment proposals to the Board of Directors for submission to the individual General Meeting of Shareholders of the LLB Group and associated companies.

The Group Nomination & Compensation Committee is responsible for fulfilling the tasks defined in the Group regulation "Fit & Proper – assessment of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and of holders of key functions".

The Group Nomination & Compensation Committee has the following tasks, in particular, in relation to compensation:

- the formulation of recommendations, both for the definition of basic principles and for the stipulating of regulations, regarding the compensation policy of the members of the Board of Directors, of the Group Executive Board and of other employees of the bank for submission to the Board of Directors;
- the formulation of proposals for the compensation of the members of the Board of Directors, of the Group Executive Board and of the Head of Group Internal Audit for submission to the Board of Directors in accordance with the existing principles and regulations;
- the annual review of the Group regulation "Compensation standards", the LLB AG regulation of the same name, as well as the Group regulation "Fit & Proper – assessment of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and of holders of key functions" for submission to the Board of Directors;
- the annual review of the compensation of the members of the Board of Directors, the Group Executive Board, the Head of Group Internal Audit and senior executives in risk management and compliance in accordance with the Group regulation "Compensation standards" and the parent bank regulation of the same name for submission to the Board of Directors in accordance with the existing principles and regulations.

The Group Nomination & Compensation Committee has the following responsibilities in relation to strategic human resources management:

- the stipulation and periodic review of the principles of human resources policy;
- the review of the processes for the systematic development of employees and executives.

Strategy Committee

It is one of the tasks of the Board of Directors to formulate and periodically evaluate the LLB Group's strategy. In this task it is supported by the Strategy Committee. The members of the committee are:

Name	Function
Georg Wohlwend	Chairman
Markus Foser	Member
Gabriela Nagel-Jungo	Member

Representation in foundations

Georg Wohlwend is a Member of the Board of the "Future Foundation of Liechtensteinische Landesbank AG".

Markus Büchel and Markus Foser are Members of the Board of Trustees of the Personnel Pension Fund Foundation of Liechtensteinische Landesbank AG as employer representatives.

3.5.3 Working methods of the Board of Directors and its committees

Board of Directors

A meeting of the Board of Directors is convened by invitation of its Chairman as often as business requires, but at least four times a year. If a member of the Board of Directors, the Group CEO or at least two members of the Group Executive Board submit a written request to the Chairman, he will promptly convene a meeting of the Board of Directors. Together with the written invitation, the members of the Board of Directors also receive the agenda for the meeting, the minutes of the last meeting and other important documentation required for the meeting at least five business days prior to the date set for the meeting. Meetings of the Board of Directors can also be called with a shorter period of notice if there is a pressing matter. It is within the discretion of the Chairman to determine the ur- gency of that matter. Board meetings are chaired by the Chairman. A quorum of the Board of Directors is constituted when a majority of the members is present. In urgent cases, resolutions may be passed by circular. Unanimity is required for resolutions to be dealt with by circular. Resolutions shall be passed by a simple majority of votes. In the case of a tie, the Chairman shall have the casting vote.

The members of the Board of Directors are to regulate their personal and business matters in such a manner that, as far as possible, actual or potential conflicts of interest are avoided. The members of the Board of Directors are obliged to inform the Chairman in cases of real or potential conflicts of interest. This is regardless of whether the real or potential conflicts of interest are of a general nature or related to a matter to be discussed at a meeting. The Board of Directors shall decide whether there are grounds for a recusal of the member. In such a case, that member may neither participate in the discussion of the matter in question nor vote on it. He has the right to express his opinion before leaving the Committee.

During the 2017 business year, the Board of Directors of Liechtensteinische Landesbank AG held a total of eleven ordinary and four extraordinary meetings. The meetings lasted between 0.50 and 7.00 hours; the closed meeting lasted one and a half days. The closed meeting was conducted by the Board of Directors in collaboration with the Group Executive Board following the ordinary meeting in July 2017. The closed meeting focused on the annual strategy review of StepUp2020. The subjects of the extraordinary board meetings were the negotiations with the authorities of North Rhine–Westphalia to resolve past issues relating to the untaxed assets of German clients, the legal decision in the law suit involving LLB Verwaltung (Switzerland) AG, and the takeover of Semper Constantia Privatbank AG.

Date	Meeting	Attendance	Duration in h
18 January 2017	extraordinary	all	1.25
27 February 2017	ordinary	all	4.75
4 April 2017	ordinary	all	3.00
2 May 2017	ordinary	all	2.50
30 May 2017	ordinary	all	5.25
4 / 5 July 2017	closed	all	15.25
18 August 2017	ordinary	all, excepting Urs Leinhäuser	4.50
19 September 2017	ordinary	all	4.50
6 October 2017	extraordinary	all, excepting Patrizia Holenstein and Gabriela Nagel-Jungo	0.50
24 October 2017	ordinary	all	2.50
6 November 2017	ordinary	all	4.25
21 November 2017	ordinary	all	5.00
15 December 2017	ordinary	all	7.00
20 December 2017	extraordinary	all, excepting Urs Leinhäuser	2.00
21 December 2017	extraordinary	all, excepting Patrizia Holenstein	0.50

Group Audit Committee

The members of the Group Audit Committee meet at least four times a year. These ordinary meetings are convened by the Chairman. An agenda is compiled prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior to the date of the meeting. The members of the Group Audit Committee, the Group CEO, the Group CFO, the external auditors, the Head of Group Internal Audit can request the Chairman of the Group Audit Committee to convene extraordinary meetings. To deal with specific issues, the Group Audit Risk Committee can also invite other persons, such as members of the Group Executive Board, the Chairman of the Group Risk Committee, other staff of the LLB Group companies, representatives of the external auditors or external consultants. The Group CEO, the Group CFO and the Head of Group Internal Audit usually participate in the meetings in an advisory capacity. The other members of the Board of Directors, who are not members of the Group Audit Committee, are entitled to participate in the meetings.

During the 2017 business year, the members of the Group Audit Committee met for six ordinary meetings. No external experts were called in during the business year.

Date	Attendance	Duration in h
27 February 2017	all	4.00
30 May 2017	all	1.50
3 July 2017	all	3.00
19 July 2017	all	0.50
17 August 2017	all, excepting Urs Leinhäuser	2.25
14 December 2017	all	3.50

Group Risk Committee

The members of the Group Risk Committee meet at least four times a year. These ordinary meetings are convened by the Chairman. An agenda is compiled prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior to the date of the meeting. The members of the Group Risk Committee, , the Group CEO, the Group CFO, the external auditors, the Head of Group Internal Audit and the Chairman of the Group Audit Committee can request the Head of Group Credit & Risk to convene extraordinary meetings. To deal with specific issues, the Group Risk Committee can also invite other persons, such as members of the Group Executive Board, the Chairman of the Group Risk Committee, other staff of the LLB Group companies, representatives of the external auditors or external consultants. The Group CEO, the Group CFO, the Head of Group Internal Audit and the Head of Group Credit & Risk Management usually participate in the meetings in an advisory capacity. The other members of the Board of Directors, who are not members of the Group Risk Committee, are entitled to participate in the meetings.

During the 2017 business year, the Group Risk Committee held four ordinary meetings. No external experts were called in during the business year.

Date	Attendance	Duration in h
27 February 2017	all	1.00
3 July 2017	all	2.00
17 August 2017	all, excepting Urs Leinhäuser	1.50
21 November 2017	all	2.00

Group Nomination & Compensation Committee

The Group Nomination & Compensation Committee convenes as often as business requires, but at least twice a year. The meetings are convened by the Chairman. He compiles an agenda prior to each meeting, which is sent together with the necessary information and the minutes of the last meeting to the meeting's participants at least five days prior t the meeting. In 2017, six meetings were held at which all of the committee members were present.

To deal with specific issues, the Group Nomination & Compensation Committee can also invite other persons, such as the Head of Group Human Resources, representatives of the external auditors or external consultants. The Group CEO usually participates in the meetings in an advisory capacity; except when topics are discussed that particularly concern the Board of Directors itself, the business area of Group Internal Audit or the performance assessment of the Group CEO and the establishment of his compensation. In the 2017 business year, the Group CEO and the Head Group Human Resources partially attended all the meetings.

Date	Attendance	Duration in h
24 January 2017	all	1.50
23 February 2017	all	1.25
23 May 2017	all	2.00
27 June 2017	all	1.00
5 September 2017	all	2.00
28 November 2017	all	2.00

The Strategy Committee

The Strategy Committee held four meetings in 2017. At the closed meeting on 4 and 5 July 2017, the full Board of Directors together with Group Executive Management discussed of the status of the implementation of the StepUp2020 strategy (see chapter "Strategy and organisation, page 26), the results of the strategy review 2017, and selected core subjects. The latter had previously been discussed in the Strategy Committee on 18 May and 28 June 2017. During meetings held in the second half of 2017, the Strategy Committee dealt with the ongoing activities in relation to acquisitional growth.

Date	Attendance	Duration in h
18 May 2017	all	2.00
28 June 2017	all	1.50
24 October 2017	all	2.00
10 November 2017	all	2.00

Resolutions at the committee meetings

The committees carry out solely preparatory or advisory tasks on behalf of the Board of Directors. Resolutions at the meetings are passed with an absolute majority of the members present. The attendance of more than half of the members is required for a quorum. Only the members of the committees are eligible to vote. In the case of a tie, the Chairman has the casting vote. The subjects dealt with and resolutions passed are recorded in the corresponding minutes. The minutes are circulated to the meeting's participants and the members of the Board of Directors. The Chairmen of the committees inform the full Board of Directors about the agenda dealt with at the last committee meeting and submit proposals for those points requiring resolutions. Furthermore, they submit an annual activity report to the full Board of Directors, which contains a summary of their activities and of pending matters.

Self-evaluation

In general, the Board of Directors evaluates its own performance annually and also that of the committees. This evaluation serves to determine whether the Board of Directors and the committees are functioning appropriately. The results of the self-evaluation are recorded in writing. In 2017, no self-evaluation was carried out because, in December 2017, as part of the re-assessment process for the "best board practice" label, the Board of Directors accompanied by an assessor evaluated its own performance, and discussed the core issue of the current and future composition of the Board as well as that of the committees. The committees also carried out no self-evaluation reviews in 2017.

3.6 Definition of areas of responsibility

The Board of Directors is responsible for the direction, supervision and control of the LLB Group. It is ultimately responsible for the success of the LLB Group as well as for attaining sustained value for both shareholders and employees. It makes decisions in consultation with the Group CEO concerning the LLB Group's corporate strategy and assumes final responsibility for monitoring the conduct of business. Furthermore, the Board of Directors monitors compliance with applicable legal provisions and regulations. At the request of the Group CEO, the Board of Directors determines the financial and human resources required to implement the corporate strategy.

Within the scope of the duties and responsibilities defined in the Statutes, the Board of Directors has the following tasks:

- the definition of management policies;
- the definition of the LLB Group's management strategy, including its periodic monitoring;
- the passing of resolutions regarding all proposals to the General Meeting of Shareholders;
- the issuing of a regulation concerning Group Internal Audit, the discussion of the reports submitted by Group Internal Audit and the external auditors and the approval of the reports concerning measures implemented on the basis of audit reports and their monitoring;
- decisions regarding the LLB Group's expansion into important new business operations as well as its withdrawal from existing important business operations;
- decisions regarding the acquisition or sale of participations in other companies as well as the establishment or liquidation of LLB Group companies and the nomination of their Boards of Directors;
- decisions regarding the setting-up and closure of bank offices, branches and representative offices;
- decisions regarding the initiation of legal actions involving claims of over CHF 10 million as well as judicial and extrajudicial settlements involving amounts of over CHF 10 million;
- the approval of all business matters and decisions that exceed the authority of the powers delegated by the Board of Directors;
- decisions regarding the exercise of external mandates and activities by members of the Group Executive Board and Group Internal Audit staff.

Concerning the organization of business activities and the required concomitant issuing of rulings and directives, the Board of Directors is, in particular, responsible for:

- the regular monitoring of corporate governance principles and management structures laid down in the rules of procedure;
- the issuing of rulings and directives for the parent bank as well those that are binding Group-wide, subject to respective applicable local law;
- the regularization and monitoring of internal control systems and the issuing of regulations regarding this function;
- the appointment and dismissal of the Group CEO, the Vice Group CEO, all the other members of the Group Executive Board and the Head of Group Internal Audit as well as the provisions for deputies and the review of their performance, including succession planning;
- the supervision of the Group CEO, the Vice Group CEO and the other members of the Group Executive Board regarding compliance with legal provisions, statutes and rulings and directives as well as the LLB Group's economic development;
- the appointment of the committee members from among its members;
- the regularization of the compensation principles within the LLB Group.

Concerning the ultimate liability for the organization of accounting, financial control and financial planning, the Board of Directors is, in particular, responsible for:

- the approval of the applicable accounting standards;
- the approval of medium-term planning and budgeting;
- the preparation of the Annual Report and the Consolidated Annual Report;
- the approval of the Consolidated Interim Report;
- the ensuring of regular reporting on the course of business and extraordinary occurrences; this includes annotated reporting, on

a quarterly basis, as regards the development of business, the earnings situation, balance sheet development, liquidity and equity requirements;
- the stipulation of the competence to authorize expenditure.

Concerning the ultimate responsibility as regards risk management, the Board of Directors is, in particular, responsible for:
- the definition in Group regulations of the strategies and principles of the LLB Group's risk policy and their monitoring;
- the issuing of regulations concerning the fundamentals of risk management, determination of risk appetite, risk control as well as accountability and the processes for the approval of risk-related transactions, whereby interest, credit, liquidity and market price risks and operational risks as well as legal and reputational risks, in particular, are to be identified, controlled, reduced and monitored, as well as the annual review of them;
- the stipulation of credit competences and the regulation of transactions for the account of corporate bodies and employees as well as resolutions regarding large commitments including cluster risks;
- the evaluation of the effectiveness of the internal control system;
- the stipulation of overall and individual limits at least once a year;
- the approval of quarterly reports, including comments on the risk situation;
- the ensuring of prompt information in the event of imminent risk threats and losses of considerable importance.
- the issuing of a code of conduct for employees and corporate bodies of the LLB Group in relation to dealing with conflicts of interest and the issuing of instructions for preventing the misuse of confidential information.

The Group Executive Board, under the leadership of Group CEO, is responsible for the management of the LLB Group. It is composed of six members, the three heads of the market divisions: Retail & Corporate Banking, Private Banking and Institutional Clients, as well as the Group CFO, the Group COO and the Group CEO. The Group Executive Board meets as often as business requires, but at least once a month.

The LLB Group conducts its business within a framework of the three market-oriented divisions: Retail & Corporate Banking, Private Banking and Institutional Clients as well as the shared service functions of the Group CFO and Group COO. The heads of the divisions are responsible for the operative management of the divisions.

The heads of the market-oriented divisions are responsible for the cross-divisional collaboration of their business areas and they represent the LLB Group vis-à-vis the general public and other stakeholders in their relevant markets, and vis-à-vis the relevant client groups. Together with the heads of the Group CFO and Group COO Divisions and the heads of the business areas, they implement and coordinate the strategy of their divisions.

The heads of the divisions create the organisational prerequisites in order to manage the business areas assigned to their divisions over all the LLB Group companies. They actively coordinate all business activities with each other.

Taking into consideration prevailing local law, the Group Executive Board issues the regulations necessary for the operation and management of the divisions, provided this does not lie within the competence of the Board of Directors. These regulations may be binding for individual or several divisions of LLB Group companies.

In addition to the powers and duties set forth in the statutes, the Group Executive Board is responsible, in particular, for:
- implementing the resolutions made by the Board of Directors and its committees;
- submitting suggestions concerning the organisation of business activities in general and proposals for specific business matters to the Board of Directors and the responsible committees, provided
- these matters exceed the scope of authority of the Group Executive Board, in particular, with respect to:
  - the definition and periodic review of the LLB Group's corporate strategy as well as the allocation of resources to implement the strategy and attain corporate objectives;
  - participations, Group companies, business offices, branches and representative offices;
  - medium-term planning;
  - annual expenditure and income budget;
  - financial reporting and the annual report;
- implementing an efficient structure and organisation and an effective internal control system for the prevention and limitation of risks of all types;
- implementing the risk policy approved by the Board of Directors and reviewing compliance with it;
- active participation in the distribution of all significant risks, participation in the valuation of assets as well as in the use of external creditworthiness assessments and internal models regarding key risks;
- composition of the Risk Committee;
- comprehensive reporting to the Board of Directors regarding the risk situation in accordance with the provisions of risk policy;
- naming of persons (with the exception of the staff of Group Internal Audit), who can sign on behalf of the parent bank;
- regular reporting to the Board of Directors and its committees, in particular to the Chairman about the conduct of business and special occurrences;
- issuing of regulations for the conduct of business at the LLB Group;
- coordination of the LLB Group's range of products as well as specifying the pricing policy and the terms and conditions for the products and services offered;
- deciding on the conclusion of cooperation and partnership agreements as well as the membership of professional associations;
- authorising investments for personnel expenses and general and administrative expenses of up to CHF 1 million in specific cases and investments of up to CHF 3 million (with prior notification of the Chairman of the Board of Directors) which are not included in the budget adopted by the Board of Directors. In such a case, the

Chairman decides about any matters to be presented to the Board of Directors;
- continuously monitoring the developments within the Divisions and business operations as well as initiating problem-solving measures;
- continuously monitoring financial reporting;
- setting objectives for business activities and the course of business as it executes the strategy approved by the Board of Directors; thereby ensuring that decision-making is timely and of a high quality as well as monitoring the implementation of the decisions made;
- ensuring that their objectives comply with general business targets and with the LLB Group's course of business.

The Group CEO is the highest authority within the LLB Group management and is liable to account. He is, in particular, entirely responsible for the development of the corporate strategy of the LLB Group and the divisions as approved by the Board of Directors and – in coordination with the Group Executive Board – for the implementation of this strategy. The Group CEO represents the Group Executive Board vis-à-vis the Board of Directors and externally.

The Group CEO
- ensures the coherent management and development of the LLB Group as well as the implementation of the strategy that is stipulated and periodically monitored by the Board of Directors;
- sets objectives for business activities and the course of business;
- ensures high-quality and timely decision-making;
- ensures that the objectives set by the members of the Group Executive Board comply with management objectives;
- submits recommendations to the Board of Directors concerning compensation principles within the LLB Group;
- monitors the implementation of any decisions that are made;
- monitors the implementation of the resolutions made by the Board of Directors and its committees;
- is responsible – in coordination with the Chairman of the Board of Directors – for concrete succession planning within the Group Executive Board and submits proposals to the Board of Directors regarding the nomination of members of the Group Executive Board with the exception of the Group CEO.

3.7 Information and control instruments vis-à-vis the Group Executive Board

The Chairman of the Board of Directors is informed about the agenda of Group Executive Board meetings and receives the minutes. He participates in its meetings in an advisory capacity as required. The purpose of this is for both parties to update each other on important topics and form their opinions.

Principally, the Board of Directors, the individual committees and especially the Chairman of the Board are kept informed about the activities of the Group Executive Board by the Chairman of the Group Executive Board. The members of the Group Executive Board report to the Group CEO for the attention of the Board of Directors. The Group CEO ensures that the Chairman of the Board of Directors and the Board of Directors as well as its committees are informed in a timely and appropriate manner. The Group CEO regularly reports to the Board of Directors about current business developments and important business issues, including all matters that fall within the remit of the Board of Directors.

The Group CEO generally attends the meetings of the Board of Directors in an advisory capacity, informs it about the development of business as well as extraordinary occurrences and provides additional information on request. The Group CFO regularly informs the Board of Directors about finances and risk management as well as about the proper implementation of the Bank's risk policy. The other members of the Group Executive Board attend meetings when matters involving them are dealt with. The Group CEO and the Group CFO usually participate in the meetings of the Group Audit Committee and the Group Risk Committee in an advisory capacity. If required, the Group CEO can inform the Chairman of the Board of Directors outside of meetings of the Board of Directors about the course of business and special occurrences.

During meetings, each member of the Board of Directors can request information about all matters relating to the LLB Group. Outside of meetings, each member of the Board of Directors can also request information about the course of business from members of the Group Executive Board and, with the approval of the Chairman of the Board of Directors, also about individual business transactions.

Internal supervision and control

The LLB Group has standardized bank management systems that generate quantitative and qualitative data for the Group Executive Board and in a summarized form for the Board of Directors. This enables the Board of Directors to inform itself about significant business developments, such as the course of business, earnings situation, budget utilisation, balance sheet development, liquidity, risk situation and the fulfilment of equity requirements. The Board of Directors discusses and approves the annotated reports on finances and risk management on a quarterly basis.

In exercising its supervision and control functions, the Board of Directors is also assisted by Group Internal Audit, which is subordinate directly to the Chairman of the Board of Directors. Group Internal Audit is independent in its reporting and is not subject to any directive or other limitations, and within the LLB Group, it has an unrestricted right to peruse all information and documents. Group Internal Audit assumes the function of the internal auditor for all Group companies that are required to prepare a consolidated statement of accounts and submits the reasons for its decision to the Board of Directors or the respective Board of Directors of the Group company as to whether there exists an effective internal control system and whether risks are being adequately monitored. Group Internal Audit provides independent, objective and systematic reporting services regarding:

- the effectiveness of processes for defining the strategy and principles of risk policy as well as the general compliance with the approved strategy;
- the effectiveness of governance processes;
- the effectiveness of the risk management, including the evaluation of whether risk identification and management are adequate;
- the effectiveness of internal controls, in particular, whether these are adequate in relation to the risks taken;
- if necessary, the effectiveness and sustainability of measures for reducing and minimizing risks;
- the reliability and completeness of financial and operational information (that is, whether activities are correctly and fully documented) as well as the quality of the underlying data and models;
- compliance with legal and regulatory requirements as well as with internal rulings and directives and agreements.

The powers and duties of Group Internal Audit are stipulated in a special set of regulations. The planning of annual auditing is carried out on the basis of the evaluation of risks and controls and is guided by a long-term auditing plan.

To avoid duplication of work and to optimize controls, the auditing plans are coordinated with the statutory auditors. The short-term auditing plan and the personnel requirement plan are reviewed by the Group Audit Committee and submitted to the Board of Directors for approval. In addition, Group Internal Audit regularly monitors the rectification of any deficiencies found and the implementation of its recommendations; it submits reports about this procedure to the Group Audit Committee.

The results of every examination are recorded in a written audit report. The audit reports of the parent bank and all Group companies are sent to the Chairman of the Board of Directors, the members of the Group Audit Committee and the Group Risk Committee, the Group Executive Board, the Head of Group Credit & Risk Management as well as to the Head of Group Legal & Compliance and the external auditors. The Head of Group Internal Audit compiles a report on a quarterly basis for submission to the Group Audit Committee and the Group Executive Board as well to the responsible committees of the other banks of the LLB Group. He also compiles a written activity report annually for submission to the Board of Directors. Particular findings that need to be dealt with immediately are communicated to the Chairman of the Board of Directors without delay by the Head of Group Internal Audit. In addition, Group Internal Audit regularly monitors the rectification of any deficiencies found and the implementation of its recommendations; it submits reports about this procedure to the Group Audit Committee.

Risk management

The proactive approach towards risks is an integral part of the LLB Group's corporate strategy and ensures the Group's risk-bearing capacity. The LLB Group attaches great importance to proactive and comprehensive opportunity / risk management. As part of the risk policy, the Board of Directors issues guidelines and regulations concerning the principles of risk management. In this way, the Board of Directors sets qualitative and quantitative standards for risk responsibility, risk management, risk reduction and risk control.

The LLB Group manages risks according to strategic objectives. It evaluates and manages risks through the application of detailed, qualitative and quantitative standards for risk responsibility, risk management and risk control. We utilise the "Internal Capital Adequacy Assessment Process" (ICAAP) and "Internal Liquidity Adequacy Assessment Process" (ILAAP) to deal with equity capital and liquidity issues, both of which are extremely important factors for banks. These processes ensure that adequate capital and liquidity to cover all essential risks are always available.

The risk management specialists strive to create and maintain a Group-wide uniform risk culture and risk approach. This establishes the fundamentals for an appropriate risk / return profile and an optimum allocation of capital. The Group Risk Committee invites the Chairmen of the Group Risk Committees to a quarterly discussion of the risk status. Their reports are summarized every six months in an overall risk report of the LLB Group, which is discussed by the Board of Directors. Further details concerning risk management can be found in the chapter "Financial and risk management (pages 28 to 30) as well as in the Notes to the consolidated financial statement of the LLB Group on pages 178 to 196.

Compliance

All employees of the LLB Group are obliged to comply with all legal, regulatory and internal regulations as well as to observe common market standards and professional codes of conduct. The compliance functions within the LLB Group annually report in writing to the Board of Directors about their activities, findings and the measures taken (see the chapter "Regulatory framework and developments", page 65).

Roland Matt

Education:
Business economist FH, 1995; Federally qualified financial analyst and asset manager, 1999; Federally qualified finance and investment expert, 2002

Professional career:
Head of Research, VP Bank AG, Vaduz, 1999; Head of Asset Management Division, VP Bank AG, Vaduz, 2000 – 2001; Family Office Project Head, VP Bank AG, Vaduz, 2002

Liechtensteinische Landesbank:
Head of Investment Services, 2002 – 2006; Head of Domestic Clients Division, 2007 – 2008; Member of the Group Executive Board and the Board of Management, since 2009; Head of Domestic Market and Institutional Market Divisions, 2009 until March 2011; Head of International Market Division, April 2011 until 15 January 2012; Vice Chairman of the Group Executive Board and the Board of Management, April 2011 until 15 January 2012; Group Chief Executive Officer, since 16 January 2012

Other functions:
Member of the Board of the Liechtenstein Chamber of Commerce and Industry; Member of the Board of the Liechtenstein Bankers Association; Member of the Board of Trustees of the Personnel Pension Fund Foundation of Liechtensteinische Landesbank AG; Chairman of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Natalie Epp

Education:
Mag. Iur., University of Innsbruck, 2000; Executive Master of European and International Business Law, University of St. Gallen, 2006

Professional career:
Legal assistant at the Liechtenstein Bankers Association, 2003 – 2005; Private labelling client adviser at the Liechtenstein Fund Management Company IFOS, 2006 – 2007 ; Member of senior management at the Liechtenstein Fund Management Company IFOS, 2008 – 2011

Liechtensteinische Landesbank:
Head of the Institutional Clients Business Unit, 2011 until 30 June 2012; Head of Fund Services Business Area, 1 July 2012 until 30 June 2016; Member of the Group Executive Board and the Board of Management, since 1 July 2016; Head of the Institutional Clients Divisions, since 1 July 2016

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
LLB Fund Services AG (Chairwoman); LLB Asset Management AG (Chairwoman); LLB Qualified Investors AGmK (member); LLB Invest AGmvK (member)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Gabriel Brenna

Education:
M.Sc., Electrical Engineering, École polytechnique fédérale de Lausanne (EPFL), 1998; Ph.D., Electrical Engineering, Semiconductors, Swiss Federal Institute of Technology (ETH) Zurich, 2004

Professional career:
Project Leader, Philips Semiconductors, Zurich, 1998 – 1999; Research and instruction, ETH Zurich, 2000 – 2004; Senior Project Leader, Advanced Circuit Pursuit, Zollikon, 2002 – 2004; McKinsey & Company, Zurich and London; most recently, Partner and Head of Swiss Private Banking and Risk Management Practice, 2005 until September 2012

Liechtensteinische Landesbank:
Member of the Group Executive Board and the Board of Management, since 1 October 2012; Head of Private Banking Division, since 1 October 2012

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG, (Head of the Supervisory Board); Bank Linth LLB AG (Member); LLB Asset Management AG (Vice Chairman); LLB Services (Schweiz) AG (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Urs Müller

Education:
Licentiate in law, University of St. Gallen (HSG), 1993

Professional career:
Auditor, Unterrheintal District Court; Associate Court Clerk, Oberrheintal District Court, 1993 – 1995

Liechtensteinische Landesbank:
Legal counsel, 1995 – 1998; Head of Legal & Compliance, 1998 – 2006; Head of Institutional Clients Division, 2007 until April 2011; Member of the Group Executive Board and the Board of Management, since April 2011; Head of Domestic Market and Institutional Market Divisions, April 2011 until June 2012; Head of Institutional Clients Division, 1 July 2012 until 30 June 2016; Head of Retail & Corporate Banking Division since 1 July 2016; Vice Group Chief Executive Officer, since 1 July 2012

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
Bank Linth LLB AG (Vice Chairman); LLB Asset Management AG (Member); LLB Berufliche Vorsorge AG, Lachen (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Christoph Reich

Education:
Federally qualified licentiate in economics, FHS St. Gallen, 1999; Executive MBA, University of St. Gallen (HSG), 2009

Professional career:
Commercial apprenticeship, St. Galler Kantonalbank, Buchs (SG), 1990 – 1993; Investment advisor for private clients, St. Galler Kantonalbank, Wil (SG), 1994 – 1996; Senior consultant, KPMG Consulting (from October 2002, Bearing Point), Zurich, 1999 until mid-2003; Team manager Budget and Management Services, Asian Development Bank, Manila / Philippines, 2003 – 2006; Partner at Syndeo AG, Head of Accounting and Controlling for Banks, Horgen / ZH, end of 2006 until October 2010

Liechtensteinische Landesbank:
Head of Group Finance & Risk Department, November 2010 until 15 January 2012; Member of the Group Executive Board and the Board of Management, since 16 January 2012; Chief Financial Officer, 16 January 2012 until 30 June 2012; Group Chief Financial Officer, since 1 July 2012

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG (Vice Chairman); Bank Linth LLB AG (Member); LLB Asset Management AG (Member); LLB Beteiligungen AG (Chairman); LLB Verwaltung (Schweiz) AG (Chairman); LLB Linth Holding AG (Chairman); LLB Holding (Switzerland) AG (Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

Kurt Mäder

Education:
Federally qualified physicist, Swiss Federal Institute of Technology (ETH) Zurich, 1987; Dr. sc. nat., ETH Zurich, 1992

Professional career:
Scientist, National Renewable Energy Laboratory, Golden, Colorado, 1992 – 1994; Senior scientist, Centre Européen de Calcul Atomique et Moléculaire, Lyon, 1994 – 1996; Head of Operations, ELCA Informatik AG, Zurich, 1996 – 2004; Member of the Board of Management, Bank Linth LLB AG, Uznach, 2005 – 2008

Liechtensteinische Landesbank:
Member of the Group Executive Board and the Board of Management, since 2009; Head of Corporate Service Center, 2009 until June 2012; Group Chief Operating Officer, since 1 July 2012

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
Liechtensteinische Landesbank (Österreich) AG (Member); Bank Linth LLB AG (Member); LLB Beteiligungen AG (Vice Chairman); LLB Verwaltung (Switzerland) AG (Vice Chairman); Data Info Services AG (Chairman); LLB Linth Holding AG (Vice Chairman); LLB Holding (Switzerland) AG (Vice Chairman)

Other functions:
Member of the Board of Trustees of the "Future Foundation of Liechtensteinische Landesbank AG"

4 Group Executive Board

4.1 Members

Name	Year of birth	Nationality	Function / Area of responsibility	Member of the Group Executive Board since
Roland Matt	1970	FL	Group Chief Executive Officer	2009
Urs Müller	1962	FL / CH	Head of Retail & Corporate Banking Division Vice Group Chief Executive Officer	2011
Gabriel Brenna	1973	CH / I	Head of Private Banking Division	2012
Natalie Epp	1977	AT	Head of Institutional Clients Division	2016
Kurt Mäder	1962	CH	Group Chief Operating Officer	2009
Christoph Reich	1974	CH	Group Chief Financial Officer	2012

The LLB Group's organisational structure is consistently geared towards client and market needs. For this purpose the Retail & Corporate Banking (Urs Müller), Private Banking (Gabriel Brenna) as well as Institutional Clients (Natalie Epp) Market Divisions are represented at the Group Executive Management level. The Group Chief Financial Officer (Christoph Reich) as well as the Group Chief Operating Officer (Kurt Mäder) are also Members of the Group Executive Management. The Group Executive Board consists of six members including the Group Chief Executive Officer (Roland Matt).

4.2 Other activities and commitments

Apart from the mandates specified on pages 96 to 97, the members of the Group Executive Board are not involved in the management or supervisory boards of important Liechtenstein, Swiss or foreign private or public law corporations, establishments or foundations, nor do they exercise any permanent management or consultancy functions for important Liechtenstein, Swiss or foreign interest groups, nor do they perform official functions or hold political office.

4.3 Number of permitted activities

Liechtensteinische Landesbank AG is not subject to the Swiss ordinance against excessive compensation in listed public limited companies (OaEC). Liechtensteinische Landesbank AG has not issued any regulations on the number of permitted activities.

4.4 Management contracts

The Liechtensteinische Landesbank has not concluded any management contracts.

5 Compensation, participations and loans

Details concerning compensation, participations and loans can be found in the compensation report (pages 103 to 111).

6 Shareholders' participation rights

6.1 Voting right limitation and representation

At the Liechtensteinische Landesbank's General Meeting of Shareholders, each share carries one vote. In accordance with Art. 306a ff. of person and company law, the LLB shares held by the Liechtensteinische Landesbank itself and its subsidiaries (1'922'937 shares as at 31 December 2017) are not eligible to vote.

Each shareholder has various possibilities of participating in the General Meeting of Shareholders. At the General Meeting of Shareholder he can vote his own shares or authorise a third party in writing to vote them, or have them voted by another shareholder eligible to vote. The Chairman of the General Meeting shall decide whether the authorisation is valid. A person acting as a representative may act on behalf of more than one shareholder and vote differently for the various shares he represents. Shareholders may also vote their shares in writing by post or by means of electronic communication prior to the General Meeting. On account of the many different voting possibilities, the Liechtensteinische Landesbank has decided not to designate an independent proxy in accordance with Art. 18, para.1 of the Statutes (**www.llb.li/statutes**). The LLB is not subject to the pertaining provision of the ordinance against excessive compensation by listed companies

6.2 Statutory quorum

At the General Meeting of Shareholders, a quorum is present if half of the share capital is represented. The Board of Directors can decide to permit shareholders to vote their shares by post or by means of electronic communication prior to the General Meeting. If a shareholder votes his shares in this manner prior to the General Meeting, his share capital is regarded as being represented for the purpose of constituting a quorum. If a quorum is not constituted, a fur- ther General Meeting of Shareholders has to be convened within two weeks that makes decisions irrespective of the represented shares, unless otherwise prescribed by mandatory laws and statutes.

Provided that legal provisions do not stipulate to the contrary, the General Meeting passes its resolutions and decides its elections by an absolute majority of the votes cast.

6.3 Convening of the General Meeting of Shareholders

The Board of Directors convenes an ordinary General Meeting of Shareholders with a period of notice of 30 days. The meeting must be held within six months following the end of a business year. The invitation to the General Meeting is to be publicised on the company's website as well as, if necessary, in other media to be designated by the Board of Directors. The invitation must contain the information required by law, especially the agenda to be dealt with at the meeting, the proposals of the Board of Directors and, in the event of elections, the names of the proposed candidates.

An extraordinary General Meeting may be convened by the Board of Directors if this is in the urgent interest of the Liechtensteinische Landesbank or at the written request – stating the reason for convening the extraordinary General Meeting – of shareholders representing ten percent of the share capital.

6.4 Agenda

The Board of Directors specifies the agenda for the General Meeting of Shareholders in accordance with Art. 1 the Liechtensteinische Landesbank's statutes. The statutes may be viewed at **www.llb.li/statutes**. The General Meeting can only deal with items which are listed in the agenda, with the exception of a proposal for the convening of an extraordinary General Meeting.

Shareholders, who together hold at least 5 percent of the share capital represented, can request that an item be placed on the agenda to be dealt with by the General Meeting. Requests for items to be placed on the agenda must be received, at the latest, 21 days prior to the date of the General Meeting. The Board of Directors shall publicise the amended agenda at least 13 days prior to the date of the General Meeting.

6.5 Registration in the company's share register

The Liechtensteinische Landesbank has exclusively issued registered shares. It maintains a share register containing the names of the owners of registered shares. Upon request, the purchasers of registered shares are entered in the share register as shareholders having a voting right provided that they expressly render a declaration that they have purchased these shares in their own name for their own account. If the purchaser is not prepared to render such a declaration, the Board of Directors can refuse to enter the shares with voting rights in the register. Pursuant to Art. 5a of the Statutes (**www.llb.li/statutes**), the Board of Directors has specified that nominee registrations without the above-mentioned declaration are generally to be made without a voting right. In order for the right to vote to be exercised at the General Meeting of Shareholders, entry in the share register must be made at the latest three working days prior to the date of the General Meeting. Accordingly, the deadline for entry in the share register for the General Meeting on 9 May 2018 was fixed at 5 p.m. on Friday, 4 May 2018. From 7 to 9 May 2018 no entries will be made in the share register.

7 Change of control and defensive measures

The Liechtensteinische Landesbank is a banking institute licensed under Liechtenstein law with its registered office in the Principality of Liechtenstein. As a Liechtenstein bank listed on SIX Swiss Exchange, Liechtensteinische Landesbank AG must in addition to complying with Liechtenstein law also comply with various Swiss regulatory requirements. Since 1 January 2016, the provisions regarding the disclosure of significant shareholders are regulated in the Financial Market Infrastructure Law and in the Financial Market Infrastructure Ordinance and also apply to the LLB. Shareholders attaining, falling below or exceeding the threshold percentages of 3, 5, 10, 15, 20, 25, 33.33, 50 or 66.67 of voting rights must notify SIX and the LLB (**www.llb.li/thresholds**).

The Liechtensteinische Landesbank's statutes contain no regulations comparable with the Swiss provisions regarding opting out or opting up. Likewise, there are no changes of control clauses in favour of the members of the Board of Directors and / or the members of the Group Executive Board or other senior executives.

Pursuant to the Law on the Liechtensteinische Landesbank, the Principality of Liechtenstein holds at least 51 percent of the capital and votes.

8 Independent auditors

8.1 Duration of mandate and term of office of the auditor in charge

8.1.1 Date of acceptance of existing auditing mandate

Every year, the General Meeting of Shareholders appoints one or more natural or legal entities as the independent auditors in accordance with the legal provisions. The independent auditors examine the company's adherence to the legal provisions, the statutes and the other regulations.

PricewaterhouseCoopers AG, St. Gallen, has served as the independent auditors of the Liechtensteinische Landesbank according to company and banking law since 1998. The auditing mandate was taken over from Revisuisse Price Waterhouse AG, St. Gallen, and its predecessor Revisa Treuhand AG, St. Gallen. Pursuant to person and company law and banking law, the independent auditors were elected by the General Meeting of Shareholders on 12 May 2017 at the proposal of the Board of Directors for a period of one year.

8.1.2 Term of office of the auditor in charge of the current auditing mandate

Claudio Tettamanti has been the responsible auditor in charge since 2014. The auditor in charge changes every seven years.

8.2 Audit fees

In the 2017 business year, PricewaterhouseCoopers AG invoiced the companies of the LLB Group for CHF thousands CHF 1'399 (2016: CHF thousands 1'272) in respect of audit fees. These fees include the work carried out as required by the respective regulatory authorities. In addition, in the 2017 business year, PricewaterhouseCoopers AG received CHF thousands 261 (2016: CHF thousands 242) for services in connection with our own investment funds.

The Group Audit Committee oversees the fees paid to PricewaterhouseCoopers AG for their services.

8.3 Additional fees

For other services, PricewaterhouseCoopers AG invoiced the LLB Group companies CHF thousands 1'700 (2016: CHF thousands 449) in 2017. The increase in the corporate finance area is attributable to due diligence services in connection with the acquisitional growth of the LLB Group.

Audit fees and additional fees

in CHF thousands	2017	2016
Audit fees	1'399	1'272
Additional fees	1'700	449
Corporate finance	1'423	125
International accounting	46	45
Taxation advice	188	270
Legal and other advice	43	9

8.4 Information instruments of the external auditors

The Group Audit Committee fulfils a supervisory, control and monitoring function, which also extends to the external auditors. It is responsible, among other tasks, for:

- taking note of and discussing the risk analysis made by the external auditors, the auditing strategy derived from it and the respective risk-oriented auditing plan;
- the discussion of major problems identified during the auditing process with the external auditors;
- the monitoring of the implementation of recommendations put forward by the external auditors and Group Internal Audit to eliminate weak points and deficiencies;
- the analysis of the audit reports submitted by the external audit and Group Internal Audit to the Board of Directors;
- the assessment of the qualification, quality, independence, objectivity and performance f the external and Group Internal Audit;
- the discussion of the annual activity report and the annual audit plan including risk analysis of Group Internal Audit, with the evaluation of whether this function has adequate resources and competences, as well as the approval of proposals to the Board of Directors;
- the examination of the compatibility of external auditors' auditing activities with possible consulting mandates as well as the evaluation and discussion of their professional fees;
- the evaluation of the collaboration between the external auditors and Group Internal Audit;
- the submission of a proposal to the Board of Directors for the attention of the General Meeting regarding the appointment or dismissal of the external auditors (appointed according to banking law and person and company law). The Group Audit Committee is responsible for defining the procedure to appoint new external auditors.

The external auditors perform their work in accordance with the legal provisions, and according to the principles of the profession in the respective country of domicile of the Group company, as well as according to the "International Standards on Auditing". The independent auditors regularly report to the Board of Directors, the Group Audit Committee and the Group Executive Board about their findings and submit suggestions for improvements to them. The most important report is the audit report on the LLB Group required by banking law. This summarized report is submitted in writing to the Board of Directors once a year. In addition, the responsible auditor in charge of the external auditors presents a report at one meeting of the Group Audit Committee. All reports from the internal and external auditors concerning all Group companies are submitted to the Group Audit Committee.

Important findings in the reports of the internal and external auditors since the last meeting and all reports concerning the Group companies are addressed at the next meeting of the Group Audit Committee. The Head of Group Internal Audit is responsible for providing the relevant information and reports directly to the Group Audit Committee. He is appointed by the Board of Directors and is subordinate to the Board's Chairman.

Representatives of the external auditors participated in two meetings of the Group Audit Committee but did not attend any meetings of the Board of Directors during the report period. The Head of Group Internal Audit attended five of the six meetings of the Group Audit Committee and all the meetings of the Board of Directors. The external auditors submit periodic reports dealing with the audit planning based on risk analysis, the current audit reporting, the annual activity report as well as on a comparison of actual with budgeted fees.

The Group Audit Committee annually evaluates the performance of the external and internal auditors in their absence. The following criteria are applied in assessing the performance of the external auditors and their professional fees (auditing and additional fees): comparison of fees and budgeted fees as well as the previous year's fees, feedback from the departments audited, quality of the auditors' findings, structured assessment of the auditors' expertise. The independence of the external auditors is evaluated on the basis of the information concerning independence provided in the annual report of PricewaterhouseCoopers AG and an assessment of their conduct. The cost planning and its observance are also reviewed and discussed annually. Furthermore, the Group Audit Committee periodically reviews alternatives and submits a proposal to the full Board of Directors for the attention of the General Meeting regarding the appointment of the external Group auditors.

Additional orders are placed on the basis of offers from competitors taking into consideration the level of expertise. The Group Audit Committee bases its assessment of the placing of orders for additional services on the periodic reports it receives from Group Internal Audit regarding reliability, scope and relation to audit fees.

The Group Audit Committee reports to the full Board of Directors once a year concerning the activities of the external auditors and the assessment of their performance.

The external auditors have direct access to the Board of Directors at all times. They hold regular discussions with the Chairman of the Board of Directors and the Chairman of the Group Audit Committee.

9 Information policy

The Liechtensteinische Landesbank simultaneously, comprehensively and regularly provides its shareholders, clients, employees and the general public with information. This ensures that all stakeholder groups are treated equally. Equality of opportunity and transparency are ensured through institutionalizing and nurturing these ties as well as establishing and preserving relationships that are based on trust with the financial community, on the one hand, and with the media and all other interested recipients of information, on the other.

The most important information media of the Liechtensteinische Landesbank are its web site (**www.llb.li**) as well as its annual and interim reports, media communiqués, its media and financial analysts conference and the conference call for media and analysts, and its General Meeting of Shareholders.

As a listed company, the Liechtensteinische Landesbank is obliged to publish information about potential share price-relevant facts (ad hoc publicity, Art. 53 of the exchange listing regulations). To receive ad hoc announcements in accordance with the directives for ad hoc publicity automatically, an interested party can register at **www.llb.li/registration**. Ad hoc announcements are published under the link **www.llb.li/mediacommuniques**.

If you have any questions, please contact the following person who ist responsible for investor relations:

Dr. Cyrill Sele
Head Group Corporate Communications & General Secretary
Städtle 44 / Postfach 384
9490 Vaduz
Phone +423 236 82 09
Fax +423 236 87 71
E-mail cyrill.sele@llb.li

Agenda

Date	Time	Event
8 March 2018	7.00 a.m.	Publishing of 2017 business result at www.llb.li; release of online Annual Report 2017 at ar2017.llb.li
	10.30 a.m.	Financial reporting and analyst conference
9 March 2018		2017 business result advertisement in the "Liechtensteiner Vaterland" and the "Liechtensteiner Volksblatt"
9 April 2018		Publication of printed Annual Report 2017
9 May 2018	6.00 p.m.	General Meeting of Shareholders
14 May 2018		Ex-dividend date
15 May 2018		Dividend record date
16 May 2018		Dividend payment date
23 August 2018	7.00 a.m.	Publishing of interim financial statement 2018; publication of printed interim financial statement 2018 and release of online interim financial statement 2018 at www.llb.li
	10.30 a.m.	Conference Call
24 August 2018		2018 interim financial result advertisement in the "Liechtensteiner Vaterland" and the "Liechtensteiner Volksblatt"

10 Important changes since the balance sheet date

- At the 26th General Meeting of Shareholders on 9 May 2018, Markus Foser, Markus Büchel and Roland Oehri will step down from the Board of Directors as a result of the legal limitation of terms of office. It is proposed to the General Meeting – subject to approval from the supervisory authority – that Thomas Russenberger and Dr. Richard Senti be elected members of the Board of Directors for a term of office of three years.
- On 22 December 2017, Liechtensteinische Landesbank announced that it had signed a purchase agreement for the acquisition of 100 percent of the shares of Semper Constantia Privatbank AG (Semper Constantia) with registered office in Vienna. The purchase price of around EUR 185 million, consisting of equity and goodwill, will be paid partly in cash and partly in shares of LLB AG. For this purpose, LLB will employ 1.85 million of its own shares. After the successful conclusion of the transaction, the Haselsteiner Familien-Privatstiftung, Ortenburger Strasse 27, 9800 Spittal / Drau, Austria, and the grosso Holding Gesellschaft mbH, Walfischgasse 5, 1015 Vienna, Austria, will together hold a stake of 6 percent of the capital and voting rights of LLB (**https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html**). The LLB Group will hold virtually no further own shares.

Compensation report

The Group regulation "Compensation standards" sets down the framework for the group-wide compensation policy. It defines the basis, values, objectives and responsibilities and sets out the minimum requirements for the design of the compensation systems. The compensation report contains information about the elements and methods of determining compensation, as well as the compensation paid to the Board of Directors and the Group Executive Board.

Introduction

On 1 January 2014, the "Ordinance against Excessive Compensation with respect to Listed Stock Corporations" (OaEC) came into force in Switzerland. Pursuant to the ordinance, Swiss public companies whose shares are listed on an exchange in Switzerland or abroad must publish details about the compensation of the members of their governing bodies in a compensation report. The details to be reported are set out in Art. 13 to 16 of the OaEC.

The OaEC does not apply to foreign companies that are publicly listed in Switzerland. According to the Regulatory Board Communiqué No. 2 / 2014 of 1 September 2014, No. II, all companies listed on the SIX Swiss Exchange should have to disclose the same information on corporate governance. Issuers that are not subject to the regulations of the OaEC have to therefore publish details about the compensation of the members of the Board of Directors and the Board of Management in the same manner as Art. 14 to 16 of the OaEC. By publishing this compensation report, Liechtensteinische Landesbank AG is fulfilling this obligation.

The following report deals with the compensation policy, the basis and elements of the compensation, the responsibilities and methods of determining compensation. The compensation paid during the 2017 business year is also presented.

Compensation policy

On 18 August 2011, the Board of Directors issued the Group regulation "Compensation standards" for Liechtensteinische Landesbank AG and its Group companies (revised on 1 January 2017). The Group regulation is based on: the current version of the Ordinance on Banks and Investment Firms (Banking Ordinance) of 22 February 1994, in particular Appendix 4.4; EU Directive 2013 / 36 / EU (CRD IV) of 26 June 2013; Regulation No. 575 / 2013 (CRR) of 26 June 2013; Delegated Regulation No. 527 / 2014 of 12 March 2014; and Delegated Regulation No. 604 / 2014 of 4 March 2014. These legal provisions are applied to the LLB Group in a way and to a degree that is commensurate with its size and internal organisation as well as the type, scope and complexity of its business.

The Group regulation "Compensation standards" regulates the framework for the group-wide compensation policy, in particular in regard to its alignment to risk management. It stipulates the basis, values and objectives and sets out the minimum requirements for the design of the compensation systems. In addition, it regulates Group-internal and Group-external reporting as well as related responsibilities.

The Group regulation applies to the Group Board of Directors, the Group Executive Board, members of the Board of Directors, members of the Board of Management of the Group companies, senior managers exercising control functions, risk takers as well as to employees who receive total compensation comparable to that of at least the lowest total compensation that a member of the Board of Management has received, and whose decisions have a significant influence on the risk profile.

To implement the Group regulation "Compensation standards" at Liechtensteinische Landesbank AG, the Board of Directors has also issued the separate regulation "Compensation standards" (revised on 1 January 2017). As a company exempt from Art. 12, Para. 2 of the OaEC, Liechtensteinische Landesbank has not stipulated any regulations concerning compensation, participation and loans.

The Group companies issue company-specific compensation guidelines, which take into consideration the applicable (special) legal regulations. Deviations from the Group regulation are only permitted if they stem from prevailing law or special legal regulations.

The compensation for performance complies with the business strategy as well as with the goals and values of the LLB Group and is based on the following principles:

- **Sustainability and risk adjustment:**
  Compensation practices must contribute to long-term corporate development. They must support risk management and the pursuit of both continuous increases in the company's value and long-term client and employee retention. Compensation policy has to offer incentives in a manner that allows for adequate risk behaviour by individual persons in order to counteract any conflicts of interest.

- **Foundation of trust:**
  The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the other. Furthermore, a performance appraisal has subjective elements. Accordingly, the voluntary nature of the payment of the variable component must be ensured and attention must be drawn to the scope of discretion in this respect.

- **Performance and success orientation:**
  Compensation practices also have to reward both individual performance and company-related performance. The focus on the Group's success promotes, and is in line with, the LLB Group's long-term interests. Acknowledging individual performance serves performance motivation, the management of individual performance contributions towards achieving company goals as well as the retention of top performers.

- **Simplicity, clarity and comprehensibility:**
  The compensation regulations and models are to be kept simple, clear and comprehensible. Employees as well as third parties should be able to easily understand the basic concepts.

- **Fair compensation in accordance with responsibilities and management level:**
  The determination of compensation also has to consider the workload as well as the degree of responsibility and reflect the different management level requirements in a clear and fair manner.

- **Group orientation:**
  Compensation has to promote Group orientation. It aims to further commitment towards Group success and increased identification with the Group through employee participation in the long-term development of value and in shared ownership by means of an appropriate share option scheme.

The compensation policy forms the basis for the compensation standards stipulated in appropriate regulations and for the compensation model. The compensation standards set out the targets, processes and requirements for the design of the compensation. They also contain rules for the coordination between compensation and risk management. For employees who receive a variable component of compensation, the compensation model specifies the ratio between fixed and variable portions and the allocation mechanism for the variable portion.

Elements of compensation

The compensation model of the LLB Group

The LLB Group's compensation model aims at ensuring that compensation is performance-linked. Among other elements, this means that an above-average performance has a positive and a below-average performance a negative effect on the amount of compensation. In accordance with the compensation policy, the compensation model focuses on sustained, long-term-oriented action.

The LLB Group's compensation model was developed in conjunction with FehrAdvice & Partners AG, Zurich. It is based on the results of behavioural economics research carried out by Prof. Ernst Fehr from the University of Zurich. A key performance indicator is the so-called "Market-Adjusted Performance Indicator" (MAPI). The MAPI captures the company as holistically as possible, which means it reveals not only short-term successes but also long-term effects. The MAPI gives an undistorted, holistic view of management performance. This is done by comparing the long-term stock return of a company (total shareholder return, TSR) with the TSR of a tailored, relevant comparable group and allows external market effects to be factored out. The difference between the TSR of the company and that of the comparable group gives an indication of the actual performance of the company's management.

In March 2017, the LLB Group's compensation model was honoured by the Swiss Institute of Directors as the best salary model in 2016 of all companies listed on the Swiss stock exchange. The jury of experts described the compensation model as "exemplary". The three main criteria by which it was judged were internal fairness, external fairness and performance-related fairness.

The compensation system of the LLB Group

The compensation system is essentially based on the following approaches:

1. **Clear performance incentives, performance orientation and transparency:**
   A target compensation (total compensation or total target compensation) is defined for each employee. It determines how much employees who attain their targets can earn. A bonus-malus logic ensures that employees earn more or less than their defined target compensation depending on whether they exceed or do not attain

their targets. Compensation depends on performance and not on corporate results that can be affected by market conditions. Acknowledging individual performance serves performance motivation, the management of individual performance contributions towards achieving company goals as well as the retention of top performers.

2. **Uniform focus on the structure of the LLB Group:**
   The compensation system across the whole Group follows a uniform logic and is in accordance with the management structure.

3. **Fair compensation in accordance with responsibilities and management level:**
   The determination of compensation considers the workload as well as the degree of responsibility and reflects the different requirements in a clear and fair manner.

4. **Target orientation:**
   The variable component of the target compensation depends on the salary model and the attainment of targets, which are determined during the annual objectives-setting process and reflect the orientation of and change in the bank. The focus on relative management performance (MAPI) promotes, and is in line with, the LLB Group's long-term business interests. The fulfilment of basic tasks is shown through the function level and thus in the assignment of the reference compensation curve.

5. **Fairness and freedom to act:**
   The variable component is a significant part of the target compensation. Internal transfers and departures are possible at any time and calculated fairly on a pro rata basis.

6. **Integrity and trust:**
   The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the other. Furthermore, a performance appraisal always has subjective elements. As a reliable employer, the LLB Group also stands by its employees in difficult times.

These approaches should ensure the understanding of the functioning of the compensation system and fairness for the employees.

Target compensation

In general, target compensation (total target compensation) is comprised of a fixed and a variable component. The fixed component encompasses all contractually agreed or statutory compensation, which is already stipulated prior to the provision of any performance. The variable component includes, in particular, those elements of compensation which vary depending on various criteria, such as the business success of the company, the individual performance of the employee or the results attained by the organisational unit. In general, the amount and payment of the variable component is at the free discretion of the employer.

Fixed component of target compensation

The fixed component must be reasonably proportionate to the variable component. It is to be calculated in such a manner that indeed the payment of the variable component could be dispensed with. This proportionate relationship is specified in the individual compensation guidelines of Liechtensteinische Landesbank AG and of the LLB Group companies. Depending on the salary model, it varies from 97.6 percent of the target compensation to 67 percent of the target compensation for the Board of Management.

Variable component of target compensation

The variable component of the target compensation is paid in cash and / or in the form of an entitlement to acquire LLB shares, which is subject to a blocked period of three years. Other financial instruments, such as options or bonds, are not considered. The variable component may not exceed 100 percent of the fixed component of the total compensation for each person.

A clawback ruling applies to the blocked portion of the variable compensation, which is largely governed by the individually attained performance and the risks. If a significant change occurs in the assessment of performance and risks during the blocking period (for example, inadequate due diligence, untrustworthy business management or incurring excessive risks), the acquired share entitlements are to be reduced accordingly. The body which decides on the amount of the variable compensation during the annual compensation process will decide about the reduction of the share entitlements. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative.

A guaranteed variable compensation, for example in the form of a minimum bonus, may only be promised in exceptional circumstances and must be limited to the first working year. As a basic principle, no severance compensation and no additional voluntary annuity payments will be made to employees who leave the company.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The employees of the LLB Group receive fringe benefits in the form of preferential conditions on bank products as customary in the industry as well as a limited preferential interest rate for mortgage loans and on credit balances.

Group Internal Audit is responsible for reviewing the implementation of the Group regulation "Compensation standards" once a year. The results of this review are reported in writing to the Board of Directors. The compensation of senior executives in risk management and compliance at the parent bank and at the LLB Group companies is reviewed once a year by the relevant Board of Directors or by the

Compensation Committee (if such a body exists in the Group company). The Group Nomination & Compensation Committee carries out these tasks for the Group functions.

Compensation of the Board of Directors and the Group Executive Board

Board of Directors

The Board of Directors stipulates the amount of compensation of its members in accordance with their duties and responsibilities. The members of the Board of Directors receive a fixed compensation, which includes the participation in (ordinary and extraordinary) meetings and the General Meeting of Shareholders. The fixed compensation is paid out in cash and in the form of entitlements for the acquisition of LLB shares. The number of LLB shares is calculated on the basis of the average share price in the last quarter of the business year. The entitlement to acquire LLB shares is subject to a blocked period of three years.

The members of the Board of Directors do not receive any variable compensation. They also do not profit from the additional benefits for staff (fringe benefits) or from their preferential conditions on bank products. Business relations with them are subject to the same conditions that apply to comparable transactions with third parties. On account of legal provisions, no severance payment may be made in the event of the termination of a mandate (Art. 21, Para. 2 of the law concerning the control and supervision of public companies).

Group Executive Board

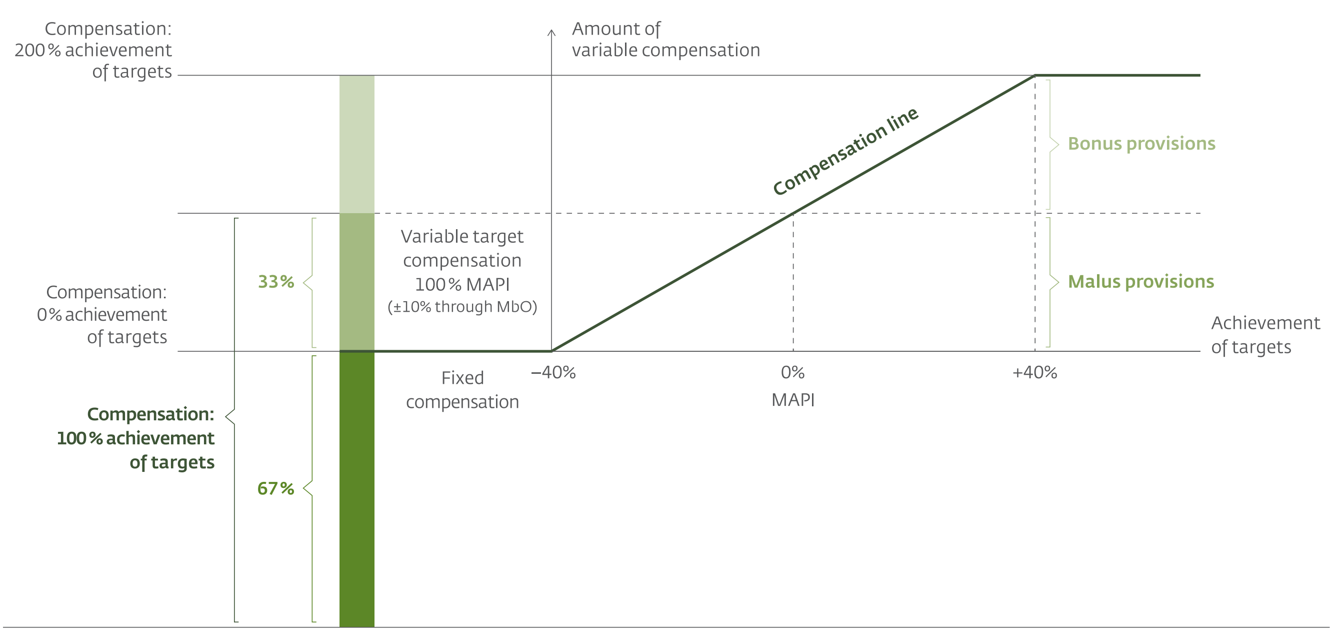
A target compensation is defined for each member of the Group Executive Board. It consists of a fixed compensation (67 %) and a variable target compensation (33%). The target compensation corresponds to the compensation attributable to the member of the Group Executive Board if the targets are 100 percent attained.

The compensation model also contains a bonus-malus provision. The members of the Group Executive Board receive more or less than their target compensation depending on whether they exceed, partly attain or do not attain the annual targets. The maximum bonus possible is 200 percent of the variable target compensation and the maximum malus possible is 0 percent of the variable target compensation. This means that the variable compensation is limited to the total amount of the fixed compensation.

The fixed compensation for the members of the Group Executive Board in 2017 was determined on the basis of a compensation comparison carried out by the Towers Watson company in 2016. This comparison comprised between 5 and 13 comparable banks and between 7 and 23 comparable positions per function represented on the Group Executive Board.

The amount of the variable compensation is determined by the Group performance. This is measured using relative total shareholder return (TSR), i.e. the so-called "Market-Adjusted Performance Indicator" (MAPI). This is done by comparing the TSR of the LLB share in relation to the TSR of a peer group. The peer group is broadly diversified and comprises a group of 25 banks. Its composition is discussed and evaluated annually by the Group Nomination & Compensation

Compensation model: Group Executive Board



Committee. In 2016, the Group Nomination & Compensation Committee, together with FehrAdvice & Partners AG, undertook a periodic review of the peer group. To achieve lower volatility and greater comprehensibility, the peer group was reduced from 28 to 25 banks. From the 2017 business year onwards, the peer group will be composed exclusively of banks from the LLB Group's home markets of Liechtenstein, Switzerland and Austria. The Board of Directors can adjust the variable compensation, based on the individual performance within the framework of the Management by Objectives (MbO) process, by plus / minus 10 percent of the variable target compensation.

The compensation model is illustrated in the previous chart.

Geographic distribution of the 25 banks in the peer group:

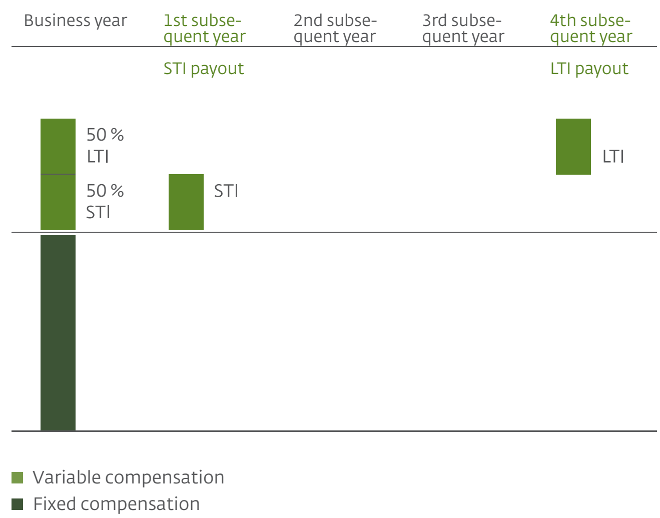
Liechtenstein	1
Switzerland	21
Austria	3

The MAPI compares the management's performance with that of a comparable group of banks. Market effects can be eliminated from the performance indicator by comparing performance with a peer group. The MAPI is therefore free of external market effects. It is calculated annually by FehrAdvice & Partners AG, Zurich.

If the MAPI is 0 percent, which means that the TSR of the LLB share corresponds to the TSR of the peer group, the members of the Group Executive Board receive their variable target compensation. The variable compensation is linearly dependent on the MAPI. No variable compensation is paid if the MAPI is minus 40 percent or less. If the MAPI is 40 percent or more, the maximum variable compensation is paid, which is capped at 200 percent of the variable target compensation.

The fixed compensation is paid out in cash every month, the variable component is provided in the first quarter of the following year. The variable compensation comprises a short-term incentive (STI) and a long-term incentive (LTI). The STI is paid in cash and the LTI is paid in the form of an entitlement to acquire LLB shares. The distribution between the STI (50 %) and the LTI (50 %) is statutorily fixed. The number of LLB shares for the LTI is calculated on the basis of the average share price in the last quarter of the business year. The LTI is subject to a blocked period of three years. The three-year period remains in force even after termination of employment. After three years, the entitlement to acquire shares is transformed into a right to the transfer of the corresponding LLB shares. The share entitlement can be withdrawn or reduced if – during the three-year period – there are significant changes in the assessment of performance and / or risk behaviour of the member of the Group Executive Board. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative. At the end of the three-year period, the Group Nomination & Compensation Committee examines whether the prerequisites for the entitlement have been met. The Committee submits its decision to the Board of Directors for a final decision.

LTI with clawback mechanism



The employment relationship of the members of the Group Executive Board is stipulated in individual employment contracts. The period of notice is four months. The contracts of employment do not contain any special clauses, such as, for example, severance compensation following the termination of employment or even in the event of a change in control.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The members of the Group Executive Board are subject to the same conditions in relation to fringe benefits as apply to other employees of the LLB Group. The preferential conditions on bank products as customary in the industry largely consist of a limited preferential interest rate for mortgage loans and on credit balances.

Responsibilities and methods of determining compensation

The Group Nomination & Compensation Committee (see point 3.5.2 "Composition of all Board of Directors' committees, their tasks and terms of reference", pages 86–90) advises the Board of Directors in all aspects concerning compensation. Its tasks include:

- the formulation of recommendations for the stipulation of principles and the establishment of regulations for the compensation policy concerning the members of the Board of Directors, the members of the Group Executive Board and the other employees of the bank for submission to the Board of Directors;
- the formulation of proposals for the compensation of members of the Board of Directors and of the Group Executive Board as well as the Head of Group Internal Audit for submission to the Board of Directors in accordance with existing principles and regulations;
- the annual review of the Group regulation "Compensation standards", the LLB AG regulation of the same name as well as the Group regulation "Fit & Proper – Assessment of members of the Board of Directors, members of the Board of Management, the Head of Group Internal Audit and of key function holders" for submission to the Board of Directors;
- the annual review of the compensation of the members of the Board of Directors, members of the Group Executive Board, the Head of Group Internal Audit and senior executives in risk management and compliance pursuant to the Group regulation "Compensation standards" and the LLB AG regulation of the same name for submission to the Board of Directors in accordance with existing principles and regulations;
- the annual perusal of the compensation of all staff who are covered by the Group regulation "Compensation standards" and the LLB AG regulation of the same name.

The Board of Directors approves the principles and regulations governing compensation and specifies annually the amount of the compensation for the members of the Board of Directors and the members of the Group Executive Board, which reflects their professional experience and the organisational responsibility they bear in the company. The decision regarding the amount of the compensation of the members of the Board of Directors and the members of the Group Executive Board is made at the discretion of the Board of Directors and is based on their duties and responsibilities. The amount of variable compensation of the Board of Management is dependent on the individual fixed compensation from the compensation model. The Chairman of the Group Executive Board has a right of proposal concerning the compensation of the other members of the Board of Management. The members of the Group Executive Board are not present at the discussion and the decision concerning the amount of their compensation.

Pursuant to Art. 12, Para. 2 of the Law on the Liechtensteinische Landesbank, the Board of Directors must inform the Government about the compensation ruling specified for it. Liechtensteinische Landesbank does not submit the total compensation of the Board of Directors and the Group Executive Board to the General Meeting of Shareholders for approval. It also does not hold an advisory vote on the question of compensation.

Compensation in 2017

For the 2017 business year, the members of the Board of Directors received a fixed compensation of CHF thousands 942. Contributions to benefit plans and other social contributions amounted to CHF thousands 119. The fixed compensation was paid in cash (CHF thousands 772) as well as in the form of an entitlement to acquire LLB shares (CHF thousands 170). The entitlement to acquire LLB shares is subject to a blocked period of three years.

In comparison with the previous year, the total compensation of the members of the Board of Directors increased by CHF thousands 20 or 1.9 percent. This was due to additional compensation expense incurred during the handover of the chairmanship of the Board of Directors in May, as a result of which contributions to benefit plans and other social contributions also rose accordingly.

For the 2017 business year, the members of the Group Executive Board received a fixed compensation of CHF thousands 3'055 and a variable compensation of CHF thousands 1'684. Contributions to benefit plans and other social contributions amounted to CHF thousands 1'046. The fixed compensation was paid in cash. The variable compensation was paid in cash (50 %) as well as in the form of an entitlement to acquire LLB shares (50 %), which is subject to a blocked period of three years. The number of shares for the share-based compensation is calculated from the average share price of the last quarter of 2017 (CHF 49.50). The variable compensation for the members of the Group Executive Board was, on average, approximately 55.1 percent of the fixed compensation or 29.1 percent of total compensation.

The total compensation of the members of the Group Executive Board in 2017 decreased by CHF thousands 617 or 9.7 percent. This decrease was primarily the result of the lower variable compensation. The MAPI was plus 4.1 percent (previous year: plus 22.5 %), which corresponds to an attainment of targets of 110.4 percent (previous year: 156.2 %).

The total compensation of the members of the Board of Directors and the members of the Group Executive Board for the 2017 business year is reported on an accrual basis. The variable compensation was charged to the 2017 income statement. Payment of the STI to the members of the Group Executive Board will be made in the first quarter of 2018. The entitlement to acquire LLB shares by the Group Executive Board (LTI) and the Board of Directors is subject to a blocked period of three years.

Details of the compensation and the participations of the members of the Board of Directors and the Group Executive Board, as well as loans to them are shown in the following table.

Compensation of key management personnel

in CHF thousands	Fixed compensation * 2017	Fixed compensation * 2016	Variable compensation 2017	Variable compensation 2016	Contribution to benefit plans and other social contributions 2017	Contribution to benefit plans and other social contributions 2016	Share-based payments 2017	Share-based payments 2016	Entitlements 2017	Entitlements 2016	Total 2017	Total 2016
Members of the Board of Directors												
Georg Wohlwend, Chairman since 13.05.2017 **	190	0	0	0	50	0	0	0	25	0	265	0
Hans-Werner Gassner, Chairman until 12.05.2017 **	125	300	0	0	39	73	0	0	15	40	179	413
Markus Foser, Vice Chairman	119	119	0	0	12	9	0	0	30	30	161	158
Markus Büchel, Member	64	64	0	0	0	5	0	0	20	20	84	89
Patrizia Holenstein, Member	68	74	0	0	6	6	0	0	20	20	94	100
Urs Leinhäuser, Member	74	74	0	0	0	4	0	0	20	20	94	98
Gabriela Nagel-Jungo, Member	67	63	0	0	5	5	0	0	20	20	92	88
Roland Oehri, Member	65	70	0	0	7	5	0	0	20	20	92	95
Total	**772**	**764**	**0**	**0**	**119**	**107**	**0**	**0**	**170**	**170**	**1'061**	**1'041**
Members of the Board of Management * **												
Roland Matt, Group CEO	637	637	175	182	196	189	0	0	175	182	1'183	1'190
Other members of the Board of Management ****	2'418	2'483	667	949	850	831	0	0	667	949	4'602	5'212
Total	**3'055**	**3'120**	**842**	**1'131**	**1'046**	**1'020**	**0**	**0**	**842**	**1'131**	**5'785**	**6'402**

* Fixed compensation fee, meeting allowances.
** The Chairman receives a fixed compensation for his 70 percent workload. He does not receive meeting allowances.
*** The compensation was paid to Adulco GmbH in 2017.
**** The Board of Management comprises six members.
***** Heinz Knecht went into retirement on 30 June 2016. From this date, Urs Müller previously Head of the Institutional Clients Division, took over from Heinz Knecht as Head of the Retail & Corporate Banking Division. Natalie Epp has been Head of the Institutional Clients Division since 1 July 2016.

Share holdings of related parties

	Bearer shares	
	31.12.2017	31.12.2016
Members of the Board of Directors		
Georg Wohlwend, Chairman since 13.05.2017	500	
Hans-Werner Gassner, Chairman until 12.05.2017		2'729
Markus Foser, Vice Chairman	835	160
Markus Büchel, Member	568	0
Patrizia Holenstein, Member	358	0
Urs Leinhäuser, Member	250	250
Gabriela Nagel-Jungo, Member	235	235
Roland Oehri, Member	950	400
Total	**3'696**	**3'774**
Members of the Board of Management		
Roland Matt, Group CEO	13'458	10'707
Urs Müller, Vice Group CEO	14'746	11'370
Gabriel Brenna	7'683	4'079
Natalie Epp (since 01.07.2016)	50	50
Kurt Mäder	8'479	5'041
Christoph Reich	6'513	3'228
Total	**50'929**	**34'475**
Other related companies and parties		
Related parties	100	100
Total	**100**	**100**

No member of the Board of Directors or the Board of Management owns more than 0.1 percent of the voting rights.

Loans to key management personnel

	Fixed mortgages		Variable mortgages		Total	
in CHF thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Members of the Board of Directors						
Georg Wohlwend, Chairman since 13.05.2017	0	0	0	0	0	0
Hans-Werner Gassner, Chairman until 12.05.2017	0	0	0	0	0	0
Markus Foser, Vice Chairman	300	300	700	700	1'000	1'000
Markus Büchel, Member	1'285	1'291	0	0	1'285	1'291
Patrizia Holenstein, Member	0	0	0	0	0	0
Urs Leinhäuser, Member	0	0	0	0	0	0
Gabriela Nagel-Jungo, Member	400	400	0	0	400	400
Roland Oehri, Member	0	0	0	0	0	0
Related parties	553	1'075	350	350	903	1'425
Total	**2'538**	**3'066**	**1'050**	**1'050**	**3'588**	**4'116**
Members of the Board of Management						
Roland Matt, Group CEO	1'005	1'005	0	0	1'005	1'005
Other members of the Board of Management *	2'810	2'810	0	0	2'810	2'810
Related parties **	0	0	0	0	0	0
Total	**3'815**	**3'815**	**0**	**0**	**3'815**	**3'815**

* In addition there is a surety limit of CHF thousands 84 for a member of the Board of Management.
** There is a surety limit of CHF thousands 84.

As at 31 December 2017, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 1 and 95 months (previous year: between 13 and 107 months) at standard market client interest rates of 1.10 to 1.65 percent p.a. (previous year: 1.10 to 1.65 %). The maturities of mortgages with a variable interest rate granted at standard market conditions were between 2 and 23 months (previous year: between 14 and 35 months).

As at 31 December 2017, the maturities of the fixed mortgages for the members of the Board of Management ranged between 10 and 90 months (previous year: between 22 and 102 months) at interest rates of 0.4 to 1.88 percent p.a. (previous year: 0.4 to 1.88 %).

No new loans were granted in 2017. The fair value of cover of new loans granted in the previous year amounted to CHF thousands 1'577.

Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1'000 (previous year: CHF thousands 1'000) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate. Other credits granted to the members of the Board of Management totalled CHF thousands 246 (previous year: CHF thousands 246).

No allowances for loans and other credits granted to management were necessary. LLB issued guarantees to third parties on behalf of management or related parties totalling CHF thousands 168 (previous year: CHF thousands 168).

Compensation, loans and credits to related parties pursuant to Art. 16, OaEC

Liechtensteinische Landesbank AG paid no compensation to persons pursuant to Art. 16, OaEC. Loans and credits to related parties pursuant to Art. 16, OaEC were granted at standard market conditions.

Consolidated financial statement in
the online annual report with Excel files
for your own statistics

Consolidated financial statement of the LLB Group

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinische Landesbank Aktiengesellschaft Vaduz

Report on the audit of the consolidated financial statements

Opinion

As statutory auditor, we have audited the consolidated financial statements (income statement, the statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements (pages 122 to 200) and the Group management report (pages 120 to 121) of Liechtensteinische Landesbank Group (LLB Group) for the year ended 31 December 2017.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position in accordance with the International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

Basis for opinion

We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the consolidated financial statements and the Group annual report are free from material misstatement. We audited the items and disclosures in the consolidated financial statements by means of analyses and surveys on a sample basis.

Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the consolidated financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach

Overview

Overall Group materiality: CHF 6.6 million

We concluded full scope audit work at four Group companies in two countries.

Our audit scope addressed 100 % of operating profit before tax and 98 % of the balance sheet total.

As key audit matters, the following areas of focus were identified:

- Valuation of loans
- Impairment testing of goodwill
- Completeness and adequacy of the provisions for legal and litigation risks

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 6.6 million
How we determined it	5 % of operating profit before tax
Rationale for the materiality benchmark applied	We chose operating profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the LLB Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Group Audit Committee that we would report to them misstatements above CHF 0.3 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter

LLB Group grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

As at 31 December 2017, loans amount to CHF 12.1 billion (31.12.2016: CHF 11.5 billion) and thus represent the largest asset of LLB Group. Mortgage-based loans form the majority of the loan portfolio (87.3 % of total loans). In addition, LLB Group grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual loss allowances. Calculating the amount of individual loss allowances requires judgement. We focussed on the following two audit matters:

- The methods used by LLB Group to identify loans in the overall loan portfolio that may need a loss allowance, including loans that according to the LLB Group's definition show indications of impairment.
- The appropriateness and consistent application of the policies and instructions issued by Group management relating to the calculation of the amount of individual loss allowances.

The recognition and measurement principles applied to loans and the methods used to identify default risk, to determine the need for impairment and to evaluate collateral are described in the management report.

Please refer to page 132 (Accounting principles), page 146 (Notes to the consolidated balance sheet) and page 191 (Risk management: Credit default risks).

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of loans in the overall loan portfolio:

- Credit processing and approval: Sample testing of the requirements and processes set out in the Group's internal policies and working instructions in relation to credit processing. We also tested that approvals were granted at the appropriate level of authorities.
- Credit monitoring (periodic reviews): Sample testing of identified loans at risk and identifying any need for impairment.

Where significant judgement was required, we also challenged the decisions of those authorised to approve loans with our own critical opinion as part of our substantive tests of detail. Our tests of detail covered the following:

- Sample-based testing of new business and loans at risk in the overall loan portfolio (including loans with individual loss allowances or indications of impairment) to evaluate whether additional loss allowances were needed.
- Sample-based testing of the method used to calculate valuation adjustments on the overall loan portfolio in terms of its appropriateness and compliance with the policies and working instructions issued by the Group.

The combination of the tests of key controls and substantive testing of detail gives us sufficient assurance to make an adequate assessment of the valuation of loans.

The assumptions used by LLB Group are in line with our expectations.

Impairment testing of goodwill

Key audit matter

Goodwill at the level of LLB Group in the Retail & Corporate Banking segment as at 31 December 2017 amounts to CHF 55.6 million (31.12.2016: CHF 55.6 million) and originates from the acquisition of a subsidiary bank.

LLB Group tests goodwill for impairment at least once every year. For the test, the value in use must be higher than the carrying amount. LLB Group uses a discounted cash flow (DCF) valuation method. The DCF method calculates the value in use based on the expected future cash flows. The method uses the following key assumptions and scope for judgement:

- Assumptions regarding expected cash flows
- Assumptions regarding the discount rate and the long-term growth rate

Please refer to page 135 (Accounting principles) and page 153 (Notes to the consolidated balance sheet).

How our audit addressed the key audit matter

We based our audit on the analyses and calculations performed by Group management. With the involvement of a valuation expert, we performed the following audit procedures:

- Plausibility check of the analyses performed by LLB Group relating to impairment indicators.
- Assessment of the appropriateness of the DCF method and its implementation.
- Examination of management's medium-term planning processes.
- Plausibility check of the medium-term planning of the subsidiary bank and an assessment of the expected cash flows by means of a budget vs. actual comparison (backtesting).
- Plausibility check of the assumed growth rate and discount rate based on external market information.
- Tests of the sensitivity analysis of the parameters and assumptions used.

The assumptions used by LLB Group are in line with our expectations.

Completeness and adequacy of the provisions for legal and litigation risks

Key audit matter

In the course of normal business, LLB Group is involved in various legal proceedings. The amount of the provisions for legal and litigation risks as of 31 December 2017 is CHF 23.0 million (31.12.2016: CHF 47.0 million).

We identified the completeness and the adequacy of the provisions for legal and litigation risks as a key audit matter, as significant judgement exists in the assessment of the probability and the amount of the provisions for any financial obligations.

LLB Group has processes in place to identify, evaluate and monitor client complaints as well as potential and actual legal proceedings. LLB Group creates provisions for current and impending proceedings if, in the opinion of the specialists responsible, the Group is likely to suffer a cash outflow or a loss and the amount can be reliably estimated.

Please refer to page 136 (Accounting principles), page 158 (Notes to the consolidated balance sheet) and page 196 (Risk management: Operational and legal risks).

How our audit addressed the key audit matter

We based our audit on analyses performed by Group management. Further, we made use of external lawyers' letters. We compared these analyses with our own estimates and our understanding of the legal and litigation risks.

We performed the following audit procedures:

- Inquiries of the Head of Group Legal and of individual members of Group management.
- Review and inspection of the list of customer complaints, of correspondence with relevant regulatory authorities and of the minutes of the meetings of the Board of Directors and the Group management for indications of potential lawsuits.
- Review of the central register of current legal proceedings and sample testing of lawsuits with regard to any potential need for provisions.
- Obtaining external lawyers' letters and expert opinions on selected ongoing lawsuits with regard to the probability and amount of provisions, and comparing this with the provisions created by LLB Group in the consolidated financial statements.
- Test of the proper use of provisions.

The assumptions used by LLB Group are in line with our expectations.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safe guards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Group's annual report accords with the consolidated financial statements.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Romer

Claudio Tettamanti
Auditor in charge

St. Gallen, 23 February 2018

Consolidated management report

LLB Group financial statement

In the 2017 financial year, the LLB Group earned a net profit of CHF 111.3 million (2016: CHF 103.9 million). The net profit therefore improved in comparison with the previous year by 7.1 percent or CHF 7.4 million.

In comparison with the 2016 financial year, operating income rose by 7.5 percent and operating expenses by 3.4 percent. The net profit attributable to the shareholders of Liechtensteinische Landesbank increased to CHF 105.7 million (2016: CHF 98.2 million). Earnings per share stood at CHF 3.66 (2016: CHF 3.40).

Income statement

Operating income rose in the 2017 financial year by 7.5 percent to CHF 399.4 million (2016: CHF 371.7 million).

Interest income before credit loss expense was affected by the negative interest rate environment, it fell by 4.3 percent to CHF 132.1 million (2016: CHF 138.1 million). Income from interest business with clients remained stable. The negative effects on interest income caused by the extension of fixed-interest loans at lower conditions were compensated for by targeted, risk-conscious growth in mortgage lending business. In some cases, the LLB Group pays negative interest on interest rate hedging instruments, money invested in the interbank market and on money deposited with the Swiss National Bank. In comparison with the previous year this led to a sharp fall in interest business with banks.

In the 2017 financial year, the LLB Group released allowances for credit losses amounting to net CHF 8.3 million to the credit of the income statement (2016: allocation of CHF 1.0 million). This was largely due to the successful completion of a recovery position.

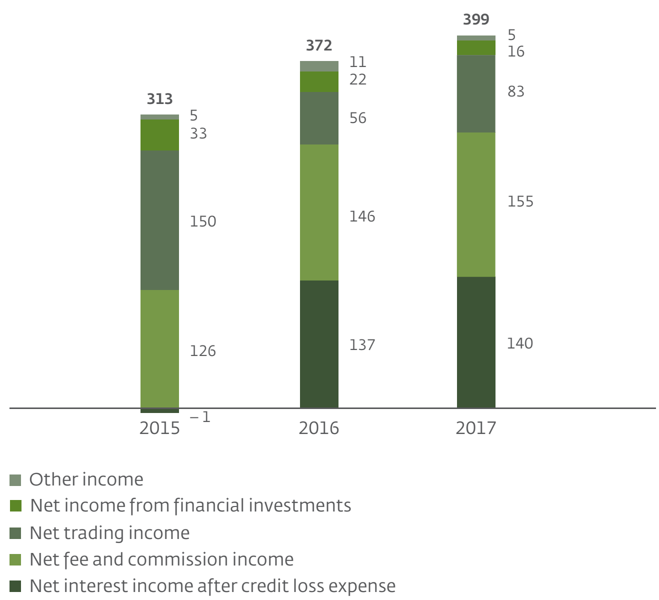
Net fee and commission income increased by 6.2 percent to CHF 154.8 million (2016: CHF 145.7 million). This was attributable to successful marketing measures and the launching of new products and new pricing models. Net brokerage rose substantially in comparison with the previous year by 6.9 percent due to clients' increased stock market transactions. The recovery of the financial markets in the 2017 financial year enabled the LLB Group to generate higher performance-linked earnings. In addition, higher custody account volumes led to increased earnings from securities administration.

Net trading income in the 2017 financial year stood at CHF 83.0 million (2016: CHF 55.9 million). Trading in foreign exchange, foreign notes and precious metals rose substantially in comparison with the previous year by 46.7 percent to CHF 61.3 million. Increased client trading activity and the treasury performance were the key factors in this rise. On account of the higher long-term market interest rates in the 2017 financial year, from the perspective of the reporting date, valuation gains on interest rate hedging instruments amounted to CHF 21.5 million (2016: CHF 14.1 million).

Net income from financial investments at fair value through profit and loss totalled CHF 16.3 million (2016: CHF 21.8 million). Income from interest and dividends remained almost unchanged in comparison with the previous year at CHF 14.8 million.

Other income amounted to CHF 4.8 million (2016: CHF 11.1 million). The previous year's figure included the proceeds from the sale of property.

Operating income (in CHF millions)



Operating expenses climbed in the 2017 financial year by 3.4 percent to CHF 267.0 million (2016: CHF 258.2 million).

At CHF 155.4 million, personnel expenses were up by 10.3 percent or CHF 14.6 million compared with the previous year (2016: CHF 140.8 million). The previous year's figure contained one-time expense reductions totalling CHF 10.2 million from the valuation of staff pension obligations. In the year under report, one-time, additional expenses for staff pension obligations totalling CHF 1.1 million are included. Without these effects, personnel expenses would have increased by 2.2 percent or CHF 3.3 million on account of the strategic expansion of human resources.

General and administrative expenses decreased by 7.8 percent or CHF 7.1 million to CHF 82.8 million (2016: CHF 89.9 million). This position includes the release of provisions for legal and litigation risks as well as lawyers' and legal representation expenses (see also Note 26). In the previous year, provisions amounting to CHF 24.4 million were allocated for legal and litigation risks. Without these effects, general and administrative expenses would have remained largely unchanged in comparison with the previous year.

Depreciation and amortisation increased marginally to CHF 28.8 million (2016: CHF 27.5 million).

The Cost-Income-Ratio rose to 69.6 percent (2016: 62.8 %). Without market effects, i.e. without income from interest rate swaps and price gains from financial investments, the Cost-Income-Ratio stood at 73.9 percent (2016: 66.5 %).

Balance sheet

The consolidated balance sheet total rose by 0.3 percent in comparison with 31 December 2016 and stood at CHF 20.0 billion on 31 December 2017 (31.12.2016: CHF 20.0 billion). Loans to clients increased by 4.7 percent in comparison with 31 December 2016. Mortgage loans expanded by 5.7 percent to CHF 10.6 billion.

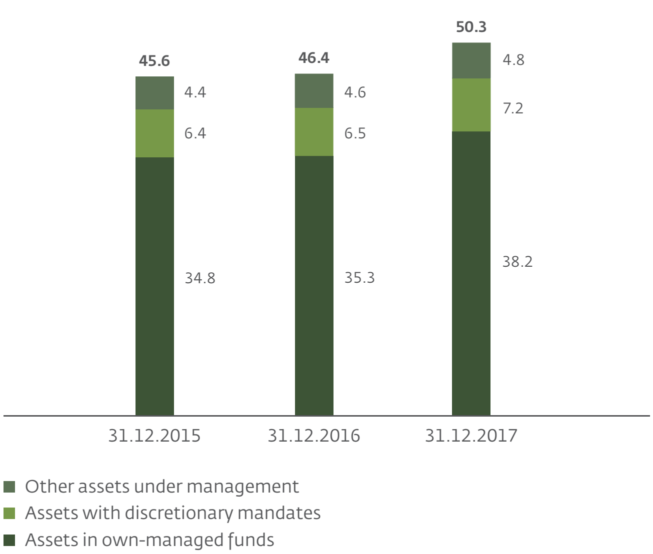
Equity attributable to the shareholders of LLB amounted to CHF 1.8 billion as at 31 December 2017. The Tier 1 ratio totalled 22.2 percent (31.12.2016: 21.0 %). The return on equity attributable to the shareholders of LLB stood at 6.1 percent (2016: 5.9 %).

Assets under management

Thanks to gratifying net new money inflows and the performance of the financial markets, assets under management climbed to CHF 50.3 billion (31.12.2016: CHF 46.4 billion).

As a result of its intensive sales and marketing measures, the LLB Group initiated a trend turnaround with net new money inflows and achieved growth in all its strategic markets. In the 2017 financial year, net new money inflows totalled CHF 470 million (2016: minus CHF 65 million).

Assets under management (**in CHF millions**)



Outlook

The difficult economic environment, characterised by negative interest rates, volatile financial markets, increasing regulation and transformation in information technology, is continuing to challenge the banking industry.

Thanks to its focused business model, a diversified earnings structure, its clear StepUp2020 strategy, and the corresponding acquisitions, the LLB Group views the future with confidence. The integration of the acquisitions made will lead to both a contribution to income as well as integration costs in 2018. The LLB Group expects to attain a solid business result for the 2018 financial year.

Consolidated income statement

in CHF thousands	Note	2017	2016	+/−%
Interest income	1	194'508	193'102	0.7
Interest expenses	1	−62'393	−55'035	13.4
Net interest income	1	132'115	138'067	−4.3
Credit loss (expense) / recovery	13	8'333	−989	
Net interest income after credit loss (expense) / recovery		140'447	137'078	2.5
Fee and commission income	2	181'751	171'930	5.7
Fee and commission expenses	2	−26'922	−26'191	2.8
Net fee and commission income	2	154'830	145'739	6.2
Net trading income	3	83'030	55'943	48.4
Net income from financial investments at fair value	4	16'259	21'836	−25.5
Share of net income of joint venture	17	−14	0	
Other income	5	4'816	11'070	−56.5
Total operating income		**399'369**	**371'665**	**7.5**
Personnel expenses	6	−155'400	−140'835	10.3
General and administrative expenses	7	−82'806	−89'859	−7.8
Depreciation and amortisation	8	−28'773	−27'548	4.4
Total operating expenses		**−266'979**	**−258'242**	**3.4**
Operating profit before tax		**132'389**	**113'423**	**16.7**
Tax expenses	9	−21'131	−9'554	121.2
Net profit		**111'259**	**103'869**	**7.1**
Of which attributable to:				
Shareholders of LLB		105'739	98'181	7.7
Non-controlling interests	33	5'520	5'688	−2.9
Earnings per share attributable to the shareholders of LLB				
Basic earnings per share (in CHF)	10	3.66	3.40	7.6
Diluted earnings per share (in CHF)	10	3.66	3.40	7.6

Consolidated statement of comprehensive income

in CHF thousands	Note	2017	2016	+ / – %
Net profit		111'259	103'869	7.1
Other comprehensive income (net of tax), which can be reclassified to the income statement				
Foreign currency translation		4'203	– 541	
Value changes to financial investments available for sale		2'467	5'600	– 55.9
Reclassified (gains) / losses to the income statement from financial investments available for sale	4	– 5'185	– 1'522	240.7
Tax effects	25	77	– 393	
Total other comprehensive income (net of tax), which can be reclassified to the income statement		**1'563**	**3'144**	**– 50.3**
Other comprehensive income (net of tax), which cannot be reclassified to the income statement				
Actuarial gains / (losses) of pension plans	41	15'676	– 15'778	
Tax effects	25	– 2'875	1'935	
Total other comprehensive income (net of tax), which cannot be reclassified to the income statement		**12'801**	**– 13'843**	
Comprehensive income for the period		**125'622**	**93'170**	**34.8**
Of which attributable to:				
Shareholders of LLB		117'879	87'457	34.8
Non-controlling interests		7'743	5'713	35.5

Consolidated balance sheet

in CHF thousands	Note	31.12.2017	31.12.2016	+/−%
Assets				
Cash and balances with central banks	11	4'129'723	3'450'726	19.7
Due from banks	12	1'940'433	3'114'861	−37.7
Loans	13	12'083'966	11'538'876	4.7
Trading portfolio assets	14	62	3'781	−98.4
Derivative financial instruments	15	58'740	82'607	−28.9
Financial investments at fair value	16	1'460'073	1'438'618	1.5
Non-current assets held for sale	36	6'734	845	
Investment in joint venture	17	33	47	−30.7
Property and equipment	18	125'077	124'969	0.1
Investment property	18	15'000	16'018	−6.4
Goodwill and other intangible assets	19	112'896	118'432	−4.7
Current tax assets		890	1'205	−26.2
Deferred tax assets	25	12'642	18'809	−32.8
Accrued income and prepaid expenses		39'395	32'568	21.0
Other assets	20	31'814	15'767	101.8
Total assets		**20'017'478**	**19'958'129**	**0.3**
Liabilities				
Due to banks	22	943'316	622'932	51.4
Due to customers	23	15'652'158	15'860'465	−1.3
Derivative financial instruments	15	117'448	161'976	−27.5
Debt issued	24	1'169'027	1'228'035	−4.8
Current tax liabilities		17'078	10'398	64.2
Deferred tax liabilities	25	14'472	13'745	5.3
Accrued expenses and deferred income		30'250	26'228	15.3
Provisions	26	28'128	51'071	−44.9
Other liabilities	27	162'619	176'905	−8.1
Total liabilities		**18'134'496**	**18'151'755**	**−0.1**
Equity				
Share capital	28	154'000	154'000	0.0
Share premium	29	23'509	24'968	−5.8
Treasury shares	30	−163'886	−167'045	−1.9
Retained earnings	31	1'815'454	1'758'816	3.2
Other reserves	32	−62'371	−74'511	−16.3
Total equity attributable to shareholders of LLB		**1'766'706**	**1'696'228**	**4.2**
Non-controlling interests	33	116'276	110'146	5.6
Total equity		**1'882'982**	**1'806'374**	**4.2**
Total liabilities and equity		**20'017'478**	**19'958'129**	**0.3**

Consolidated statement of changes in equity

		attributable to shareholders of LLB							
in CHF thousands	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2015		154'000	25'785	−168'584	1'671'273	−44'108	1'638'366	101'521	1'739'888
Net profit					82'728		82'728	3'573	86'301
Other comprehensive income						−19'741	−19'741	−1'822	−21'563
Net movements in treasury shares							0		0
Dividend 2014, paid 2015					−43'233		−43'233	−1'609	−44'842
Increase / (Reduction) in non-controlling interests							0	1'124	1'124
Changes from own interests in fully consolidated companies					−227		−227		−227
Other changes					−1'336		−1'336		−1'336
As at 31 December 2015		**154'000**	**25'785**	**−168'584**	**1'709'205**	**−63'849**	**1'656'558**	**102'787**	**1'759'345**
Net profit					98'181		98'181	5'688	103'869
Other comprehensive income						−10'724	−10'724	25	−10'699
Net movements in treasury shares	29 / 30		−818	1'539			721		721
Dividend 2015, paid 2016	31 / 33				−46'145		−46'145	−1'623	−47'769
Increase / (Reduction) in non-controlling interests	31 / 32 / 33				−2'426	62	−2'363	3'269	906
As at 31 December 2016		**154'000**	**24'968**	**−167'045**	**1'758'816**	**−74'511**	**1'696'228**	**110'146**	**1'806'374**
Net profit					105'739		105'739	5'520	111'259
Other comprehensive income						12'140	12'140	2'223	14'364
Net movements in treasury shares	29 / 30		−1'458	3'159			1'701		1'701
Dividend 2016, paid 2017	31 / 33				−49'091		−49'091	−1'623	−50'714
Increase / (Reduction) in non-controlling interests	31 / 32 / 33				−10	0	−10	10	0
As at 31 December 2017		**154'000**	**23'509**	**−163'886**	**1'815'454**	**−62'371**	**1'766'706**	**116'276**	**1'882'982**

Consolidated statement of cash flows

in CHF thousands	Note	2017	2016
Cash flow from / (used in) operating activities			
Interest received (excluding financial investments)		201'392	194'923
Interest received from financial investments at fair value		15'248	21'903
Dividends received from financial investments at fair value	4	981	819
Interest paid		−61'442	−43'815
Fees and commission received		179'305	168'557
Fees and commission paid		−25'508	−25'469
Trading income		59'606	41'982
Other income		3'675	4'528
Payments for personnel, general and administrative expenses		−246'982	−197'181
Other expenses		0	0
Income tax paid		−9'758	−7'600
Cash flow from operating activities, before changes in operating assets and liabilities		116'518	158'648
Net due from / to banks		1'678'110	1'111'606
Trading portfolio assets including net replacement values		4'728	2'419
Loans / due to customers		−726'070	−318'890
Other assets		−16'546	10'626
Other liabilities		−6'206	−4'193
Changes in operating assets and liabilities		934'015	801'568
Net cash flow from / (used in) operating activities		**1'050'533**	**960'215**

Cash flow from / (used in) investing activities			
Purchase of property and equipment	18	−26'368	−32'573
Disposal of property and equipment	18	6'126	26'457
Disposal of investment property	18	0	222
Purchase of other intangible assets	19	−8'715	−8'999
Disposal of other intangible assets	19	19	1
Purchase of financial investments at fair value		−602'276	−516'112
Disposal of financial investments at fair value		527'961	518'979
Net cash flow from / (used in) investing activities		**−103'253**	**−12'025**

in CHF thousands	Note	2017	2016
Cash flow from / (used in) financing activities			
Disposal of treasury shares	30	3'159	1'539
Dividends paid	31	−49'091	−46'145
Dividends paid to non-controlling interests	33	−1'623	−1'623
Increase in non-controlling interests	31 / 32 / 33	0	906
Issuance of debt		167'745	201'203
Repayment of debt		−226'944	−190'488
Net cash flow from / (used in) financing activities		**−106'754**	**−34'608**
Effects of foreign currency translation		21'880	264
Net increase / (decrease) in cash and cash equivalents		**862'406**	**913'848**
Cash and cash equivalents at beginning of the period		3'957'127	3'043'279
Cash and cash equivalents at end of the period		**4'819'533**	**3'957'127**
Cash and cash equivalents comprise:			
Cash and balances with central banks	11	4'129'723	3'450'726
Due from banks (due daily)	12	689'809	506'401
Total cash and cash equivalents		**4'819'533**	**3'957'127**

The following table contains details of changes to financial liabilities from financing activities, separated into cash and non-cash changes.

			Non-cash changes				
in CHF thousands	31.12.2016	Cash changes	Changes in scope of consolidation	Changes in exchange rates	Changes in fair value	Other changes	31.12.2017
Issuance / (Repayment) of medium-term notes	437'200	−151'399	0	657	0	−444	286'014
Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	790'836	92'200	0	0	0	−22	883'014
Total liabilities from financing activities	**1'228'035**	**−59'199**	**0**	**657**	**0**	**−467**	**1'169'027**

Accounting principles

1 Basic information

The LLB Group offers a broad spectrum of financial services. Of particular importance are asset management and investment counselling for private and institutional clients, as well as retail and corporate client businesses.

The Liechtensteinische Landesbank Aktiengesellschaft, founded in and with its registered office located in Vaduz, Principality of Liechtenstein, is the parent company of the LLB Group. It is listed on the SIX Swiss Exchange.

The Board of Directors reviewed this consolidated annual statement at its meeting on 23 February 2018 and approved it for publication.

2 Summary of significant accounting policies

The significant accounting and valuation methods employed in the preparation of this consolidated financial statement are described in the following. The described methods have been consistently employed for the reporting periods shown, provided no statement to the contrary is specified.

2.1 Basis for financial accounting

The consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS).

On account of detailed definitions in its presentation, the consolidated financial statement of the comparison period can contain reclassifications. These have no, or no substantial, effect on the business result. No further details of reclassifications are provided because the only adjustments concern the type of presentation.

Further basis for the preparation of the financial statement
The Group financial statement was prepared on the basis of historical acquisition or production cost with the exception of the revaluation of certain financial assets and liabilities.

On the basis of experience gained over recent years and the digitalisation strategy initiated by the LLB Group, the depreciation period for IT hardware and software (tangible and intangible assets) was assessed in some cases as not corresponding to the effective, useful life of the IT infrastructure employed. With effect from the financial year starting on 1 January 2017, the depreciation period was adjusted in line with the future useful economic life. An adjustment of this nature represents an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". From an overall economic perspective, the adjustment of the depreciation period results in neither additional nor reduced expenses from depreciation and amortisation, however, for the individual reporting periods this alteration does affect operating expenses. In the period under report, the expenses from depreciation and amortisation were CHF 2.2 million lower, and for the 2018 financial year CHF 0.9 million lower, than without the change. The reduction in operating expenses in the financial years 2017 and 2018 of CHF 3.1 million is reflected in higher expenses for the period 2019 to 2022 due to the extension of useful life.

Numerous new IFRS standards, amendments and interpretations of existing IFRS standards, which are to be applied for financial years starting on 1 January 2017 or later were published or came into effect. Amendments, which are to be applied for financial years starting on 1 January 2017 or later and which are regarded as being relevant for the LLB Group, are amendments to IAS 7 "Statement of Cash Flows" within the scope of the Disclosure Initiative as well as amendments to IAS 12 "Income Tax". The implementation of the changes has no major influence on the financial statement.

The following new or revised IFRS standards or interpretations are of importance for the LLB Group from 1 January 2018 or later:

- IAS 40 "Investment Property" – The amendments stipulate that in future the transfer of real estate into or out of the inventory of real estate held as financial investments is to be assessed on a principle-based basis. In future, transfers will only be made if there is a change of use. In this case, it is to be assessed whether a property meets the definition of real estate held as a financial investment. In addition the change of use must be evidenced, i.e. there must be objective evidence of, and not just an intention for, a change of use. In comparison with the previous ruling, the list of examples was changed from an exhaustive to a non-exhaustive list. In relation to operating leases, in future the commencement of the leasing relationship will be relevant as the time point of the transfer, and no longer the start of the lease term. The amendments are effective for periods on or after 1 January 2018. Retrospective application is also possible if this is possible without the use of hindsight. An earlier application is possible, but the LLB Group will not do so. The implementation of the changes has no major influence on the LLB Group's financial statement.
- IFRS 2 "Share-based Payment" – The amendments concern rulings in connection with cash-settled share-based payments. An exception will continue to apply to share-based payments involving a so-called net settlement feature. In this case, the tax to be paid by the employee will be paid directly to the competent tax authority by the company. Accordingly, the employee retains only the share-based payment amounting to the balance from the original entitlement and the tax liability. Only the net settlement feature could be of future relevance for LLB. At the moment this situation does not exist. The new rulings come into effect on 1 January 2018. Retrospective application is also possible if this is possible without the use of hindsight. An earlier application is possible, but the LLB Group will not do so. The implementation of the changes has no major influence on the LLB Group's financial statement.
- IFRS 9 "Financial Instruments "– IFRS 9 is structured in three phases: "Classification and Measurement", "Impairment", and "Hedge Accounting". To facilitate the implementation of the requirements of the new standard, the LLB Group set up sub-projects which have been successfully completed.

Sub-project "Classification and Measurement": The classification and measurement of financial instruments are made on the basis of the business model of the bank for the management of financial instruments and the cash flow characteristics (SPPI criteria) of the financial instruments. The financial instruments are classified in the "Hold" business model and measured at amortised cost, if the purpose of the financial instruments is to generate interest income and payment of the principal upon maturity. In contrast, if the management pursues the goal of also employing them for liquidity management, i.e. for the purpose of holding and sale, then the instruments are to be recognised at fair value through other comprehensive income (FVOCI). Gains and losses from this business model are booked in the statement of other comprehensive income and equity. Upon final maturity or early sale, the cumulative gain or loss is recycled in the income statement. Financial instruments, which are classified in the "Trading" business model, which do not fulfil the SPPI criteria or for which the fair value option is utilised, are to be classified as fair value through profit or loss (FVTPL). The definition of the business models for the individual financial instruments has been made. Only in the area of financial investments (see Note 16) are there effects due to the transition from IAS 39 "Financial Instruments: Recognition and Measurement" to IFRS 9. The strategy according to IFRS 9, and therefore the classification of the individual financial investments, derived from the individual business models, is as follows: a portion of the debt instruments is primarily held for the purpose of the appropriation of fair value, and accordingly was classified in the "Trading" model. This includes debt instruments, which were recognised at fair value in the income statement at the end of the 2017 financial year. All other debt instruments fall under the business model "Hold to Collect and Sell" because this is employed to attain specific interest yields and thus to manage liquidity requirements. Under IFRS 9 all newly purchased debt instruments will primarily fall under the "Hold to Collect and Sell" business model because in addition to the collection of income from coupon payments, the aim is to achieve flexibility in liquidity management while at the same time minimising the volatility of price fluctuations. In the case of equities, which are all to be measured at fair value in the income statement by the end of the 2017 financial year, an irrevocable choice has been made for an insubstantial portion of them, which exclusively have an infrastructural character, to report them in future in other income. A reclassification of cumulative income contributions of around CHF 15.8 million will be made from retained earnings to other reserves for these positions. The following table summarises the statements made above and compares the measurements made under IAS 39 and IFRS 9:

	Measurement under IAS 39	Measurement under IFRS 9
Assets		
Cash and balances with central banks	Amortised cost	Amortised cost
Due from banks	Amortised cost	Amortised cost
Loans	Amortised cost	Amortised cost
Trading portfolio assets	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial investments at fair value		
Debt instruments at fair value through profit and loss	FVTPL	FVTPL
Debt instruments available for sale	Available for sale	FVOCI
Equity instruments at fair value through profit and loss	FVTPL	FVTPL
Equity instruments at fair value through profit and loss	FVTPL	FVOCI
Accrued income and prepaid expenses	Amortised cost	Amortised cost
Liabilities		
Due to banks	Amortised cost	Amortised cost
Due to customers	Amortised cost	Amortised cost
Derivative financial instruments	FVTPL	FVTPL
Debt issued	Amortised cost	Amortised cost
Accrued expenses and deferred income	Amortised cost	Amortised cost

Sub-project "Impairment": In accordance with IFRS 9, impairments are to be recognised at an early stage (expected loss model). The amount of an impairment is determined on the basis of the classification of the financial instrument in one of the following three stages: In stage 1 there is no significant deterioration in the credit quality and impairments amounting to the cash value of an expected 12-month credit loss are to be recognised. If there is no objective indication of an impairment, but a significant increase in the credit risk has occurred, the impairment is to be recognised up to the amount of the expected losses over the entire remaining period of the term (stage 2). For the LLB Group this results in a significant increase in the credit risk in addition to the 30-day overdraft, in particular from early warning indicators from account movements. In stage 3, there must be an objective indication of an impairment and a specific valuation allowance (lifetime expected loss) is to be made for this financial instrument. The requirements for impairments apply to financial assets, which are measured at amortised cost or at fair value through other comprehensive income (FVOCI), as well as to financial guarantees and credit commitments. In respect of the LLB Group, this means that an expected credit loss (ECL) for claims due from banks, loans to customers, debt instruments, contingent liabilities, irrevocable commitments and credit cards is to be calculated. The calculation and discounting of the expected credit loss according to IFRS 9 are carried out using the software, which LLB employs within the scope of balance structure management. This ensures a high level of data integrity. The implementation of the expected credit loss in accordance with IFRS 9 is based mainly on the following internal processes and models:

Probability of default (PD): The estimates for the probability of default are determined on a through-the-cycle (TTC) basis. Missing information in relation to the probability of default, loss given default and the exposure at default are determined by means of models at the portfolio level.

Loss given default (LGD): The loss given default is calculated on the basis of estimates made by experts.

Since the models are generally structured on a through-the-cycle basis, adjustments are made to take into consideration the current economic conditions (point in time, PiT). These encompass, in particular, forecasts regarding the development of gross domestic product, interest rate trends and the real estate index. Other processes that are employed in the calculation include the exposure at default (EAD) as well as discounting. Calculations show that the implementation of the ECL model in accordance with IFRS 9, in comparison with the current approach based on losses incurred, will lead to an increase in expected credit loss. On the one hand, this is attributable to the 12-month ECL, which has to be reported for all the financial instruments concerned, as well as the determination of the ECL on the basis of the entire term, which has to be applied for positions after a significant increase in the credit risk. The requirement to include forward-looking information in the calculation of expected credit loss means that substantial discretionary judgements have to be made, which can influence the expected credit loss and increase the volatility in the income statement. In relation to this issue, within the scope of the process to determine the expected credit loss, the LLB Group is focusing on the development of a system of robust governance. Within the context of the transition to IFRS 9, a one-time adjustment of equity (reduction), not affecting the income statement, is to be made on account of the changeover from an incurred loss model to an expected loss model. The effect before deferred taxes stood at between CHF 10 and 16 million, and after deferred taxes at between CHF 9 and 14 million.

In addition, IFRS 9 regulates hedge accounting, whereby it aims to standardise risk management and accounting. Risk Management must depict certain hedge accounting in the books. At present, the LLB Group employs macro hedges at portfolio level, which is not yet regulated under IFRS 9. Up to the completion of the International Accounting Standards Board (IASB) project in macro hedge accounting, LLB can continue to follow its previous approach unchanged under IFRS 9. Accordingly, there are no major effects on the LLB Group. IFRS 9 comes into effect on 1 January 2018. An earlier implementation is possible, but will not be carried out at the LLB Group. It will be applied retrospectively, either completely or in a modified form, i.e. in a simplified form, in that any possible differences between the previous carrying value and the carrying value at the beginning of the financial year in which the standard is applied for the first time will be adjusted via the opening balance sheet value of equity. The LLB Group has chosen the simplified form for the first application, i.e. the comparison periods show the closing values in accordance with IAS 39 and not IFRS 9.

- IFRS 9 "Financial Instruments", Amendments – In October 2017, the IASB announced amendments in relation to contractual prepayment features. Thanks to the amendments, it is now possible that a prepayment right can be consistent with the SPPI payment conditions if the amount of the prepayment substantially constitutes a payment of principal and interest on the principal amount outstanding. Accordingly, the sign of the compensation payment is no longer relevant, the financial instrument therefore becomes eligible to be measured at amortised cost or at fair value through other comprehensive income (FVOCI). The amendment comes into effect on 1 January 2019 and is to be applied retrospectively. An early application is permitted and will be applied by the LLB Group parallel to the first application of IFRS 9. For these reasons, the amendments have no effect on the LLB Group.
- IFRS 15 "Revenue from Contracts with Customers" – In May 2014, the IASB, together with the Financial Accounting Standards Board (FASB), issued new regulations for the recognition of revenue, which completely replace the existing US-GAAP and IFRS rulings for the recognition of revenue. The recognition requires that revenue be shown as goods or services transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 contains a 5-step model to calculate the revenue, whereby

the type of transaction or the industry, in which the company operates is irrelevant. Furthermore, the standard includes guidelines concerning the costs for the attainment and performance of a contract, as well as when such costs are to be capitalised. The standard specifies additional disclosures. In April 2016, the IASB provided clarifications on the subjects of "Identification of Benefit Obligations", "Principal-Agent Relationships" and "Licenses" as well as the granting of transitional relief (optional application). In general, for LLB, the introduction of IFRS 15 will have only a slight influence on the recognition, balancing, presentation and disclosure of such items. The primary reason for this is that IFRS 15 is aimed mainly at industrial sectors and less at the financial services industry. Currently, revenues from fees and commissions are reported in one position (one line). In future, if they are material, further positions (lines) will be shown in a table to enable a more detailed presentation. The new standard comes into effect from 1 January 2018. An earlier application is possible, but the LLB Group did not do so. It will be applied on the basis of simplified transition provisions.

- IFRS 16 "Leasing" – The new standard regulates the recognition and disclosure of leasing contracts. Leasing contracts are understood to be contracts that convey the right to use an asset for a period of time in exchange for a consideration. This can be, for example, the leasing of premises or equipment. The IFRS 16 contains no material threshold values for when a leasing contract is to be recognised as an asset, rather all substantial leasing contracts are basically to be entered in the accounts. However options exist for short-term leasing terms (shorter than 12 months) and for low-value assets. The entering of leasing contracts in the financial accounts leads to a balance sheet extension, which basically has a negative impact on the regulatory required equity and also on the corresponding regulatory key figures, such as the Tier 1 ratio. The standard comes into effect on 1 January 2019. An earlier application is possible, but the LLB Group will not do so. It will be applied retrospectively, either completely or in a modified form. The effects of these changes on the LLB Group's financial reporting are currently being analysed.
- IFRIC 23 "Uncertainty over Income Tax Treatments" – The interpretation provides guidelines regarding the treatment of taxable profit or taxable losses, tax bases, unused tax credits and tax rates when there is uncertainty as to what extent the tax authorities will recognise the individual tax positions. In a first step it is to be determined whether each tax treatment should be considered individually or whether some tax treatments should be considered together. In doing so, it is to be evaluated whether it is likely that the tax authority will accept the tax treatment or combination of tax treatments that an entity has employed, or intends to employ, in its tax declaration. If an entity concludes that it is probable that a particular tax treatment will be accepted, the entity has to determine taxable profit (taxable loss), tax bases, unused tax credits or tax rates consistently with the tax treatment included in its income tax declaration. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or expected value of the tax treatment. The interpretation comes into effect on 1 January 2019. An earlier application is possible, but will not be utilised by the LLB Group. It will be applied fully retrospectively or retrospectively in a modified form. The implementation of these changes has no major influence on the LLB Group's financial statement.

Within the scope of its annual improvements, the IASB published further improvements (Annual Improvements to IFRS 2014 – 2016 Cycle and 2015 – 2017 Cycle), which are valid from 1 January 2017, 2018 or 2019. The implementation of these changes has, or will have, no major influence on the LLB Group's financial statement.

Use of estimates in the preparation of financial statements

In preparing the financial statements in conformity with IFRS, the management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of information available on the balance sheet date and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences could be substantial to the financial statements.

The IFRS contains guidelines which require the LLB Group to make estimates and assumptions when preparing the consolidated financial statement. Allowances for credit loss risks, goodwill, intangible assets, provisions for legal and litigation risks, fair value conditions for financial instruments and value adjustments for pension plans are all areas which leave large scope for estimate judgments. Assumptions and estimates made in these areas could be substantial to the financial statement. Explanations regarding this point are shown under Notes 13, 19, 26, 34 and 41.

2.2 Consolidation policies

The consolidated financial statement adopts a business perspective and follows a financial format. The consolidation period corresponds to the calendar year. The financial year is identical to the calendar year for all consolidated companies. Solely LLB Invest AGmvK and LLB Qualified Investors AGmvK have a different financial year; however, these companies are negligible for the preparation of the consolidated financial statement. The Swiss franc (CHF), the currency of the country in which LLB AG has its registered office, serves as the reporting currency of the LLB Group.

Subsidiaries

The consolidated financial statement incorporates the financial accounts of Liechtensteinische Landesbank AG and its subsidiaries. LLB Group companies, in which Liechtensteinische Landesbank AG holds, directly or indirectly, the majority of the voting rights or otherwise exercises control, are fully consolidated. Subsidiaries acquired are consolidated from the date control is transferred to Liechtensteinische

Landesbank AG, and are no longer consolidated from the date this control ends.

The consolidation is carried out according to the purchase method. The effects of intra-group transactions and balances are eliminated in preparing the financial statements. Transactions with minorities are booked to equity.

Equity attributable to minority interests is presented in the consolidated balance sheet in equity, separately from equity attributable to LLB shareholders. Net profit attributable to minority interests is shown separately in the income statement.

Investment in joint venture

Joint ventures, i.e. companies in which LLB has a 50 percent participation, are recognised according to the equity method.

Changes to the scope of consolidation

There were no changes to the scope of consolidation in the 2017 financial year.

2.3 General principles

Recording of business

Sales and purchases from trading assets, derivative financial instruments and financial investments are booked on the transaction date. Loans, including those to clients, are recorded in that period of time in which the funds flow to the borrower.

Income accrual

Income from services is recorded at the time the service was rendered. Asset management fees, safe custody fees and similar types of income are recorded on a pro rata basis over the period the specific service is provided. Interest income is recorded using the effective interest method. Dividends are recorded at the time point a legal claim comes into existence.

Inland versus abroad

"Inland" encompasses the Principality of Liechtenstein and Switzerland.

2.4 Foreign currency translation

Functional currency and reporting currency

The items contained in the financial accounts of each Group company are valued in the currency which is used in the primary business environment in which the company operates (functional currency).

The reporting currency of the LLB Group is the Swiss franc.

Group financial statement

Group companies which report their financial accounts in a functional currency other than the Group's reporting currency are translated as follows: all assets and liabilities are converted at the relevant exchange rate valid on the balance sheet date. All individual items in the income statement and statement of cash flows are converted at the average exchange rate for the accounting period. All resulting exchange differences are booked individually to equity and other comprehensive income, respectively.

Separate financial statements

Foreign currency transactions are translated on the day of the transaction at spot rates into the functional currency. Foreign currency differences with financial assets and financial liabilities occur if the exchange rate prevailing on the reporting date differs from the spot rate on the transaction date. In the case of monetary items, the resulting foreign currency differences are recognised in the income statement in the position foreign exchange trading under net trading income. The same applies to non-monetary items, which are recognised at fair value. In the case of non-monetary items, whose fair value changes are recognised directly in equity and in other comprehensive income without affecting net income, respectively, the foreign currency difference is a part of the change in fair value. If material, the foreign currency difference is reported in a foot note under Note 16.

The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2017	31.12.2016
1 USD	0.9765	1.0167
1 EUR	1.1715	1.0726
1 GBP	1.3201	1.2588

Average rate	2017	2016
1 USD	0.9837	0.9889
1 EUR	1.1132	1.0895
1 GBP	1.2749	1.3397

2.5 Cash and balances with central banks

Cash and balances with central banks consist of cash in hand, postal cheque balances, giro and sight deposits at the Swiss National Bank and foreign central banks, as well as clearing credit balances at recognised central savings and clearing banks, claims from money market instruments with an original maturity period of less than three months as well as loans due from banks (due daily).

2.6 Balances due from banks and from customers

Balances due from banks and from customers are initially recorded at actual cost, corresponding to the fair value of the specific loan at the time it was granted. Subsequent valuation reflects the amortised cost under application of the effective interest rate method.

Interest on balances due from banks and from customers is recognised on an accrual basis and is reported according to the effective interest method, included under the item interest income.

Negative interest on assets and liabilities is accrued in a period-compliant manner and reported in the income statement as interest paid or interest received.

Basically, the LLB Group extends loans only on a collateralised basis, and only to counter parties having very high credit worthiness.

Loans are regarded as being impaired if it is likely that the entire amount owed according to the loan agreement is not recoverable. Loan impairments are caused by country- or counterparty-specific criteria. Indications for the impairment of financial assets are:

- the financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the increased probability that the borrower will enter bankruptcy or financial reorganisation;
- national or local economic conditions that correlate with defaults on the assets of the Group.

The amount of the impairment is measured as the difference between the carrying value of the claim and the estimated future cash flow, discounted by the loan's original effective interest rate. Allowances for credit risks is reported as a reduction of the carrying value of a claim on the balance sheet, whereas for an off-balance sheet item, such as a commitment, a provision for credit loss is reported under provisions. Impairments are recognised in the income statement.

2.7 Trading portfolio assets

Trading portfolio assets comprise equities, bonds and structured financial products. Financial assets held for trading purposes are recorded at fair value. Short positions in securities are reported as trading portfolio liabilities at fair value. Realised and unrealised gains and losses as well as interest and dividends are recorded in net trading income.

Fair value is based on current market prices in the case of an active market. In the absence of an active market, fair value is calculated on the basis of valuation models (see "2.9 Financial investments").

2.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are valued as positive or negative replacement values corresponding to fair value and are reported in the balance sheet. Fair value is calculated on the basis of exchange quotations; in the absence of these, valuation models are employed. Derivative financial instruments are held within the LLB Group for hedging and trading purposes. If the derivative financial instruments held for hedging purposes do not fulfil the strict IFRS hedge accounting criteria, changes in fair value are recognised, as with derivative financial instruments for trading purposes, in net trading income. Within the LLB Group, income effects of hedging transactions according to hedge accounting guidelines arise only with the ineffective component, the effects of the effective component neutralise each other.

Hedge accounting

Within the scope of risk management, derivative financial instruments are employed mainly to manage interest rate and foreign currency risks. If these transactions fulfil the IFRS-specific hedge accounting criteria, and if these were employed as hedging instruments from a risk management perspective, they can be shown according to hedge accounting guidelines. If these transactions do not fulfil the IFRS-specific hedge accounting criteria, they are not presented according to hedge accounting guidelines, even if from an economic point of view they represent hedging transactions and are consistent with the risk management principles of the LLB Group.

The LLB Group employs fair value hedge accounting for interest rate instruments. In this case, the interest rate risks of the underlying transaction (e.g. a fixed-rate mortgage) are hedged by means of hedging instruments (e.g. an interest rate swap). Fair value hedge accounting is applied at the portfolio level, whereby one hedging instrument is used to secure one or more underlying transactions. The effect on income of the fair value change in the hedging instrument is recognised in the income statement in the same position as the corresponding effect on income of the fair value changes in the hedged underlying transactions.

In the case of the hedging of interest rate risks at the portfolio level, the fair value change in the hedged item is recognised in the same balance sheet position as the underlying item. As soon as a financial instrument is classified as a hedging instrument, and the hedging instrument fulfils the IFRS-specific hedge accounting criteria, the relationship between the hedging instrument and the hedged underlying transaction or the portfolio of underlying transactions is formally documented. This documentation contains the risk management goals and strategies for the underlying hedged relationship, as well as methods to assess the effectiveness, i.e. the effectiveness of the hedging relationship. The effectiveness of a hedging transaction is understood to be the extent to which changes in the fair value of the underlying transaction, which are attributable to a hedged risk, can be compensated for by changes in the fair value of the hedging transaction. An assessment is made, both when the hedging relationship is first applied and during its term, of whether it can regarded as "highly effective". A hedge is regarded as being highly effective if: a) it is assessed as being highly effective both when the hedge is initially recognised and during the entire term of the transaction, and b) the actual results of the hedging transaction lie within a range of 80 to 125 percent. The part outside the range of 80 to 125 percent is classed as being ineffective.

If fair value hedge accounting is employed for reasons other than the derecognition of the hedged transaction, the amount, which is reported in the same balance sheet position as the underlying transaction, is amortised over the residual term of the underlying transaction in the income statement.

2.9 Financial investments

According to IFRS, financial investments can be divided into various categories. The classification depends on the purpose for which the individual financial investments were made. The management of the LLB Group determines the classification upon initial recognition. In the 2017 financial year and in the 2016 financial year, financial investments were classified in the category "Financial investments at fair value through profit and loss", as well as the category "Available-for-sale financial assets". All value adjustments with the category "Financial investments at fair value through profit and loss" are recognised in the income statement. All value adjustments with the category "Available for- sale financial assets" are reported in other comprehensive income.

This designation of the financial investments is in line with LLB's investment strategy. The securities are managed on a fair value basis and their performance is evaluated accordingly. The members of the Group Executive Board receive the corresponding information.

Financial assets at fair value through profit and loss

Financial assets are recorded on the balance sheet at fair value. Non-realised gains and losses are reflected in the income statement at fair value under income from financial instruments. The fair value of listed shares is based on current market prices. If an active market is not available for financial assets, or if the assets are not listed, the fair value is determined by way of suitable valuation models. These encompass references to recent transactions between independent business partners, the application of the current market prices of other assets which are essentially similar to the assets being valued, discounted cash flows and external pricing models, which take into account the special circumstances of the issuer. See also Note 34.

Interest and dividend income from financial investments is recorded at fair value as income from financial instruments. Interest income is recognised on an accrual basis.

Available-for-sale financial assets

Financial assets which are available for sale are recognised at fair value. Value changes, such as unrealised gains or losses, are reported in other comprehensive income. The fair value of these financial assets is measured on the basis of listed shares. If no active market exists or the assets are not listed on an exchange, the fair value is determined, similar to financial assets at fair value through profit and loss, by means of suitable valuation models. See also Note 34. Interest and dividend income are recognised in the income statement. Interest is reported on an accrual basis.

2.10 Property, investment property and other equipment

Property is reported in the balance sheet at acquisition cost less any depreciation necessary for operational reasons. Bank buildings are buildings held by the LLB Group for use in the delivery of services or for administration purposes, whereas investment property is held to earn rentals and / or for capital appreciation. If a property is partially used as investment property, the classification is based on whether or not the two portions can be sold separately. Investment property is periodically valued by external experts. Changes in fair value are recognised in the income statement as other income in the current period. If the portions of the property can be sold separately, each portion is booked separately. If the portions cannot be sold separately, the whole property is classified as a bank building unless the portion used by the bank is minor.

Equipment includes fixtures, furnishings, machinery and IT equipment. These items are entered in the financial accounts and depreciated over the estimated useful life of the asset.

Depreciation is conducted on a straight-line basis over the estimated useful life as follows:

Property	33 years
Investment property	No depreciation
Undeveloped land	No depreciation
Building supplementary costs	10 years
Fixtures, furnishings, machinery	5 years
IT equipment	3-6 years

Small value purchases are charged directly to general and administrative expense. In general, maintenance and renovation expenditures are booked to general and administrative expense. If the related cost is substantial and results in a significant increase in value, such expenditures are capitalised and depreciated over their useful life. Profits from the sale of fixed assets are reported as other income. Losses result in additional write-downs on fixed assets.

Property and equipment is regularly reviewed for impairment, but always when, on account of occurrences or changed circumstances, an overvaluation of the carrying value appears to be possible. If, as a result of the review, a reduction in value or modified useful life is determined, the residual carrying value is depreciated over the adjusted useful life, or an unplanned write-down is made.

2.11 Non-current assets held for sale

Long-term assets (or a disposal group) are classified as held for sale, if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. For this to be the case, the asset (or the disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets (or disposal groups) and such a sale must be highly probable. Long-term assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell, unless the items shown in the disposal group are not classified in the valuation rules of IFRS 5 "Non-current assets held for sale and discontinued operations".

2.12 Goodwill and other intangible assets

Goodwill is defined as the difference between the purchase price paid for and the determined fair value at date of acquisition of identified net assets in a company purchased by the LLB Group. Other intangible assets contain separately, identifiable intangible values resulting from acquisitions and certain purchased brands / trademarks and similar items. Goodwill and other intangible assets are recognised on the balance sheet at cost determined on the date of acquisition, and are amortised using the straight-line method over the useful life of ten to fifteen years. On each balance sheet date, goodwill and other intangible assets are reviewed for indications of impairment or changes in future benefits. If such indications exist, an analysis is performed to assess whether the carrying value of goodwill or other intangible assets is fully recoverable. An amortisation is made if the carrying amount exceeds the recoverable amount. For impairment testing purposes, goodwill is distributed into cash generating units. A cash generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. Cash flows generated from independent groups of assets are largely determined on the basis of how management steers and manages business activity. The management of the LLB Group manages and steers business activity in divisions so that the divisions and segments are designated as the cash generating units of the Group.

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is possible that economic benefits will flow to the company, and the cost can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to six years. See also Note 19.

2.13 Current and deferred taxes

Current income tax is calculated on the basis of the tax law applicable in the individual country and recorded as expense for the accounting period in which the related income was earned. The relevant amounts are recorded on the balance sheet as provisions for taxes. The tax impact from time differentials due to different valuations arising from the values of assets and liabilities reported according to IFRS shown on the Group balance sheet and their taxable value are recorded on the balance sheet as accrued tax assets or, as the case may be, deferred tax liabilities. Deferred tax assets and deferred tax liabilities attributable to time differentials or accountable loss carry forwards are capitalised if there is a probability that sufficient taxable profits will be available to offset such differentials of loss carry forwards. Accrued / deferred tax assets / liabilities are calculated at the tax rates that are likely to be applicable for the accounting period in which the tax assets are realised or the tax liabilities paid.

Current and deferred taxes are credited or charged directly to equity or other comprehensive income if the related tax pertains to items that have been credited or charged directly to equity or other comprehensive income in the same or some other accounting period.

2.14 Debt issued

Medium-term notes are recognised at fair value, which usually corresponds to the issuance value, and at amortised cost. Debt instruments, which contain an embedded option for conversion of the debt into shares of LLB AG, are separated into a liability and an equity component. The difference between the proceeds of the issue price and the fair value of the instrument on the issue date is booked directly to equity. The fair value of the liability component on the issue date is determined on the basis of the market interest rate for comparable instruments without conversion rights. Thereafter, it is recognised at ongoing cost according to the effective interest method. Differences between the proceeds and the repayment amount are reported in profit and loss over the term of the debt instrument concerned. The LLB Group does not report changes in the value of the equity component in the following reporting periods.

2.15 Employee benefits

Retirement benefit plans

The LLB Group has pension plans for its employees in Liechtenstein and abroad, which are defined according to IFRS as defined benefit plans. In addition there are long-term service awards which qualify as other long-term employee benefits.

For benefit-oriented plans, the period costs are determined by opinions obtained from external experts. The benefits provided by these plans are generally based on the number of insured years, the employee's age, covered salary and partly on the amount of capital saved. For benefit-oriented plans with segregated assets, the relevant funded status is recorded on the balance sheet as an asset or liability (in accordance with the Projected Unit Credit Method). An asset position is calculated according to the criteria of IFRIC 14. For plans without segregated assets, the relevant funded status recorded on the balance sheet corresponds to the cash value of the claims.

The cash value of the claims is calculated using the projected unit credit method, whereby the number of insured years accrued up to the valuation date are taken into consideration.

The effects of retroactive improvements to benefits resulting from plan changes as well as plan curtailments are recognised directly in the income statement.

Variable salary component and share-based remuneration

Regulations exist governing the payment of variable salary components. The valuation procedure with the variable salary component is based on the degree of individual target achievement. Executives receive a portion of their profit-related bonus in the form of entitlements to LLB shares. However, no exercising conditions are attached to this procedure.

The LLB Group enters a provision as a liability in those cases where a contractual obligation exists or a de facto obligation arises as a result of past business practice. The expense is recognised under personnel expenses. Obligations to be paid in cash are entered under other liabilities. The portion to be compensated with LLB shares is entered in equity. The number of shares for the share-based compensation corresponds to the average share price of the last quarter of the year under report.

2.16 Provisions and contingent liabilities

Provisions are liabilities, whose maturities and amounts are uncertain. These are recognised in the balance sheet if the LLB Group a) has a liability towards a third party which is attributable to an event in the past, b) the liability can be reliably estimated, and c) an outflow of resources to cover this liability is probable. They are reported separately in the balance sheet.

Provisions are allocated within the scope of the best possible estimate of the expected payment. Such estimates are based on all the information available and are adjusted accordingly as soon as new information becomes available. New information or actually occurring events may substantially differ from the estimates made, which in turn can lead to significant changes in the consolidated financial statement. As soon as no further uncertainties exist in relation to the time point or amount of the payment, these items are reclassified in other liabilities.

The LLB Group's business environment exposes it to both legal and regulatory risks. As a result, LLB is involved in various legal proceedings, whose financial influence on the LLB Group – depending on the stage of the proceeding – is difficult to assess and are subject to many uncertainties. The LLB Group makes provisions for ongoing and threatened proceedings when, in the opinion of management after taking legal advice, it is probable that a liability exists, and the amount of the liability or payment can be reasonably estimated.

For legal proceedings in cases where the facts are not specifically known, the claimant has not quantified the alleged damages, the proceedings are at an early stage, or where sound and substantial information is lacking, the LLB Group is not in a position to estimate reliably the approximate financial implication. In many legal cases, a combination of these facts makes it impossible to estimate the financial effect of contingent liabilities for the LLB Group. If, indeed, such assumptions or estimates were made or disclosed, it could seriously prejudice the position of the LLB Group in such legal cases.

Restructuring provisions are allocated only if the general criteria for the recognition of liabilities are fulfilled. Moreover, a detailed restructuring plan must be available, which at least names the business area concerned and its location, the approximate number of employees affected and their functions, the necessary expenditure and the time point of the restructuring measures. The persons affected must also have a well-founded expectation that the company will indeed carry out the restructuring measures. A decision taken by management can only justify the requirement to allocate a provision once the implementation of the restructuring measures has already commenced, or if the restructuring plan has been publicly announced.

If liabilities do not fulfil the criteria applying to a provision, this could lead to the formation of a contingent liability. Contingent liabilities indicate that uncertainty exists about whether future events, which cannot be influenced, will lead to liabilities, or if management assumes that for current liabilities an outflow of economic resources is not probable, or if it is not possible to adequately estimate the amount of the liability. Guarantees issued lead to contingent liabilities if indeed LLB can be made jointly and severally liable for liabilities towards third parties, but it can be assumed that these liabilities will not be paid by the LLB Group. The amount of existing contingent liabilities is the result of the best possible estimate made by management and is based on the requirements for provisions. If, on the basis of the current evaluation of contingent liabilities, an outflow of economic resources in the future is probable, a provision is allocated for this position which was previously treated as a contingent liability.

2.17 Allowances for credit risks

Allowances for credit risks are made at LLB, provided there are objective criteria indicating that the entire amount owed according to the loan agreement may not be recoverable. At LLB, a credit amount is understood to be a loan, a claim or a fixed commitment such as a documentary credit, a guarantee, or a similar credit product. Objective criteria are serious financial difficulties experienced by the borrower, default or delinquency in interest or capital payments, or the probability that the borrower cannot repay the loan. Allowances for credit risks are reported as a reduction of the carrying value of a claim on the balance sheet. Allowances are reported in the income statement under credit loss (expense) / recovery. For further information, see "Risk management", chapter 3 "Credit risk".

2.18 Treasury shares

Shares of Liechtensteinische Landesbank AG held by the LLB Group are valued at cost of acquisition and reported as a reduction in equity. The difference between the sale proceeds and the corresponding cost of acquisition of treasury shares is recorded under capital reserves.

2.19 Securities lending and borrowing transactions

Securities lending and borrowing transactions are generally entered into on a collateralised basis, with securities mainly being advanced or received as collateral.

Treasury shares lent out remain in the trading portfolio or in the financial investments portfolio as long as the risks and rewards of ownership of the shares are not transferred. Securities that are borrowed are not recognised in the balance sheet as long as the risks and rewards of ownership of the securities remain with the lender.

Fees and interest received or paid are recognised on an accrual basis and recorded under net fee and commission income.

3 Events after the balance sheet date

There have been no material events after the balance sheet date, which would require disclosure or an adjustment of the consolidated financial statement for 2017.

Segment reporting

The business activities of the LLB Group are divided into the following three business areas. These form the basis for the segment reporting:

- Retail & Corporate Banking segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- Private Banking segment encompasses all the private banking activities of the LLB Group.
- Institutional Clients segment encompasses the financial intermediary and investment fund business as well as the asset management and wealth structuring activities of the LLB Group.

The segments receive comprehensive support from the Corporate Center. It comprises the following functions: finance, credit and risk management, legal and compliance matters, trading and securities administration, payment services, human resources management, communication and marketing, corporate development, as well as logistics and IT services.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Executive Management (chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the LLB Group meet the definition of a reportable segment under IFRS 8.

In accordance with the principle of responsibility and based on the organisational structure, income and expenditure are allocated to the business divisions. Indirect costs, resulting from services provided internally, are accounted for according to the principle of causation and are recorded as a revenue increase for the service provider and as a cost increase for the service beneficiary. The remaining income and expenditure for overriding services which cannot be assigned to the segments are shown under Corporate Center. Furthermore, consolidation adjustments are reported under Corporate Center.

Transactions between the segments are executed at standard market conditions.

Financial year 2016

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	84'077	15'695	10'300	27'994	138'067
Credit loss (expense) / recovery	−3'014	750	1'275	0	−989
Net interest income after credit loss (expense) / recovery	81'063	16'445	11'575	27'994	137'078
Net fee and commission income	29'467	65'390	55'795	−4'914	145'739
Net trading income	10'532	8'955	10'538	25'917	55'943
Net income from financial investments at fair value	0	0	0	21'836	21'836
Share of net income of joint venture	0	0	0	0	0
Other income	1'813	2	3	9'252	11'070
Total operating income *	**122'875**	**90'792**	**77'911**	**80'085**	**371'665**
Personnel expenses	−31'679	−30'631	−17'041	−61'484	−140'835
General and administrative expenses	−2'364	−3'576	−2'538	−81'380	−89'859
Depreciation and amortisation	−68	0	0	−27'480	−27'548
Services (from) / to segments	−46'989	−24'384	−12'167	83'540	0
Total operating expenses	**−81'100**	**−58'591**	**−31'746**	**−86'804**	**−258'242**
Operating profit before tax	**41'775**	**32'201**	**46'165**	**−6'719**	**113'423**
Tax expenses					−9'554
Net profit					**103'869**

* There were no substantial earnings generated between the segments so that income between the segments is not material.

Financial year 2017

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	87'439	25'992	14'725	3'960	132'115
Credit loss (expense) / recovery	833	0	7'500	0	8'333
Net interest income after credit loss (expense) / recovery	88'271	25'992	22'225	3'960	140'447
Net fee and commission income	30'210	72'825	56'201	−4'406	154'830
Net trading income	11'441	8'826	11'138	51'625	83'030
Net income from financial investments at fair value	0	0	0	16'259	16'259
Share of net income of joint venture	0	0	0	−14	−14
Other income	1'622	8	2	3'184	4'816
Total operating income *	**131'545**	**107'651**	**89'566**	**70'607**	**399'369**
Personnel expenses	−29'886	−32'200	−17'709	−75'604	−155'400
General and administrative expenses	−3'544	−2'650	−2'507	−74'105	−82'806
Depreciation and amortisation	−40	0	0	−28'734	−28'773
Services (from) / to segments	−49'117	−27'344	−13'369	89'831	0
Total operating expenses	**−82'587**	**−62'195**	**−33'585**	**−88'612**	**−266'979**
Operating profit before tax	**48'957**	**45'456**	**55'981**	**−18'005**	**132'389**
Tax expenses					−21'131
Net profit					**111'259**

* There were no substantial earnings generated between the segments so that income between the segments is not material.

There were no revenues deriving from transactions with a single external customer that amounted to ten percent or more of the Group's revenues.

Segment reporting by geographic location

The geographic analysis of operating income and assets is based on the location of the company, in which the transactions and assets are recorded. The LLB Group does not manage the segments or the individual companies according to geographic distribution. The geographic analysis is prepared and disclosed in order to comply with IFRS.

Financial year 2016

	Liechtenstein		Switzerland		Other countries		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	249'717	67.2	111'845	30.1	10'103	2.7	**371'665**	**100.0**
Total assets (in CHF millions)	13'193	66.1	6'561	32.9	204	1.0	**19'958**	**100.0**

Financial year 2017

	Liechtenstein		Switzerland		Other countries		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	284'718	71.3	103'536	25.9	11'114	2.8	**399'369**	**100.0**
Total assets (in CHF millions)	12'834	64.1	6'874	34.3	310	1.5	**20'017**	**100.0**

Notes to the consolidated income statement

1 Net interest income

in CHF thousands	2017	2016	+ / − %
Interest income from banks	16'242	17'851	−9.0
Interest income from loans	168'367	167'774	0.4
Loan commissions with the character of interest	3'844	3'762	2.2
Interest income from financial liabilities	6'055	3'715	63.0
Total interest income	**194'508**	**193'102**	**0.7**
Interest expenses on amounts due to banks	−15'717	−17'939	−12.4
Interest expenses on amounts due to customers	−25'953	−24'681	5.2
Interest income from financial assets	−20'724	−12'415	66.9
Total interest expenses	**−62'393**	**−55'035**	**13.4**
Total net interest income	**132'115**	**138'067**	**−4.3**

2 Net fee and commission income

in CHF thousands	2017	2016	+ / − %
Brokerage fees	51'502	48'418	6.4
Custody fees	32'080	30'118	6.5
Advisory and management fees	47'163	41'601	13.4
Investment fund fees	23'407	23'380	0.1
Credit-related fees and commissions	585	625	−6.4
Commission income from other services	27'015	27'789	−2.8
Total fee and commission income	**181'751**	**171'930**	**5.7**
Brokerage fees paid	−10'110	−9'687	4.4
Other fee and commission expenses	−16'812	−16'504	1.9
Total fee and commission expenses	**−26'922**	**−26'191**	**2.8**
Total net fee and commission income	**154'830**	**145'739**	**6.2**

3 Net trading income

in CHF thousands	2017	2016	+ / – %
Trading portfolio assets	173	66	160.6
Foreign exchange trading	59'391	39'275	51.2
Foreign note trading	1'727	1'754	– 1.6
Precious metals trading	204	782	– 73.9
Interest rate instruments *	21'535	14'066	53.1
Total net trading income	**83'030**	**55'943**	**48.4**

* The LLB Group uses interest rate swaps for trading and hedging purposes. If the interest rate swaps do not fulfil the approval criteria according to IAS 39 in order to be booked as hedging transactions, they are treated as interest rate swaps for trading purposes.

4 Net income from financial investments at fair value

in CHF thousands	2017	2016	+ / – %
Interest income	13'807	14'088	– 2.0
Dividend income	981	819	19.8
Price gains *	– 3'714	5'406	
Total net income from financial investments at fair value through profit and loss	**11'074**	**20'313**	**– 45.5**
Realised gain from financial investments available for sale **	5'185	1'522	240.7
Total net income from financial investments available for sale	**5'185**	**1'522**	**240.7**
Total net income from financial investments at fair value	**16'259**	**21'836**	**– 25.5**

* The realised price gains for 2017 amounted to minus CHF thousands 7'782 (previous year: minus CHF thousands 4'419).
** Contains realised gains from the sale of strategic investments amounting to CHF thousands 5'153 for 2017.

5 Other income

in CHF thousands	2017	2016	+ / – %
Net income from properties	1'311	1'327	– 1.2
Non-period-related and non-operating income	1'207	649	86.1
Realised profits from sales of tangible assets *	773	7'851	– 90.2
Income from various services	1'525	1'244	22.6
Total other income	**4'816**	**11'070**	**– 56.5**

* Contains income from sales of properties.

6 Personnel expenses

in CHF thousands	2017	2016	+ / – %
Salaries *	– 117'868	– 116'849	0.9
Pension and other post-employment benefit plans **	– 20'612	– 7'436	177.2
Other social contributions	– 11'372	– 11'238	1.2
Training costs	– 1'384	– 1'570	– 11.8
Other personnel expenses	– 4'163	– 3'743	11.2
Total personnel expenses	**– 155'400**	**– 140'835**	**10.3**

* Contains the variable compensation of the management which is disclosed in detail in the compensation report as well as aggregated in Note 42.
** See Note 41 for details.

The average headcount of LLB Group employees, adjusted to consider part-time staff, amounted to 865 in 2017 (previous year: 844).

7 General and administrative expenses

in CHF thousands	2017	2016	+ / – %
Occupancy	– 10'199	– 10'516	– 3.0
Expenses for IT, machinery and other equipment	– 18'643	– 18'380	1.4
Information and communication expenses	– 13'225	– 12'876	2.7
Marketing and public relations	– 8'009	– 8'048	– 0.5
Consulting and audit fees	– 6'350	– 5'496	15.5
Capital tax and other tax	– 34	– 505	– 93.2
Provisions for legal and litigation risks *	4'999	– 24'399	
Material costs	– 1'222	– 869	40.7
Legal and representation costs *	– 21'705	– 837	
Litigation costs	– 252	– 106	137.9
Supervision fees	– 1'057	– 1'116	– 5.3
Other general and administrative expenses	– 7'108	– 6'711	5.9
Total general and administrative expenses	**– 82'806**	**– 89'859**	**– 7.8**

* See Note 26 for details.

8 Depreciation and amortisation

in CHF thousands	2017	2016	+ / – %
Depreciation of property	– 6'932	– 5'586	24.1
Depreciation of equipment	– 7'609	– 6'902	10.2
Amortisation of intangible assets	– 14'232	– 15'060	– 5.5
Total depreciation and amortisation	**– 28'773**	**– 27'548**	**4.4**

9 Tax expenses

in CHF thousands	2017	2016	+ / – %
Current taxes	– 17'034	– 11'024	54.5
Deferred taxes *	– 4'097	1'470	
Total tax expenses	**– 21'131**	**– 9'554**	**121.2**

* For further details, see Note 25.

The actual net payments made by the LLB Group for domestic and foreign corporate profit taxes amounted to CHF 9.7 million for the financial year 2017 (previous year: CHF 7.6 million).

The tax on pre-tax Group profit deviates from the theoretical amount, calculated on the basis of the weighted average Group tax rate on profit before tax, as follows:

in CHF thousands	2017	2016	+ / – %
Operating profit before tax	132'389	113'423	16.7
Assumed average income tax rate of 12.5 % (2016: 11.5 %)	**– 16'549**	**– 13'044**	**26.9**
Increase / (Decrease) resulting from			
Use of non-capitalised losses carried forward	1'193	405	194.6
Effect of taxes calculated at tax rates other than the assumed tax rate	– 1'544	1'891	
Tax savings / (charges) from previous years	– 4'266	953	
Other differences	34	241	– 85.9
Total tax expenses	**– 21'131**	**– 9'554**	**121.2**

The assumed average tax burden is based on the domestic tax rate in Liechtenstein.

10 Earnings per share

	2017	2016	+ / – %
Net profit attributable to the shareholders of LLB (in CHF thousands)	105'739	98'181	7.7
Weighted average shares outstanding	28'869'770	28'836'386	0.1
Basic earnings per share (in CHF)	**3.66**	**3.40**	**7.6**
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	105'739	98'181	7.7
Weighted average shares outstanding for diluted earnings per share	28'869'770	28'836'386	0.1
Diluted earnings per share (in CHF)	**3.66**	**3.40**	**7.6**

Notes to the consolidated balance sheet

11 Cash and balances with central banks

in CHF thousands	31.12.2017	31.12.2016	+ / − %
Cash	82'606	64'258	28.6
Demand deposits with central banks	4'047'118	3'386'467	19.5
Total cash and balances with central banks	**4'129'723**	**3'450'726**	**19.7**

12 Due from banks

in CHF thousands	31.12.2017	31.12.2016	+ / − %
On demand	689'809	506'401	36.2
At maturity or callable	1'250'623	2'608'459	−52.1
Total due from banks	**1'940'433**	**3'114'861**	**−37.7**

13 Loans

in CHF thousands	31.12.2017	31.12.2016	+ / − %
Mortgage loans	10'555'234	9'986'137	5.7
Public institutions	86'899	82'441	5.4
Fixed advances and loans	1'319'616	1'314'918	0.4
Other loans and advances	199'661	262'378	−23.9
Credit loss (expense) / recovery	−77'445	−106'999	−27.6
Total loans	**12'083'966**	**11'538'876**	**4.7**

Allowances and provisions for credit losses

in CHF thousands	Mortgage loans	Other loans	Total
As at 1 January 2016	31'137	80'811	111'948
Write-offs	−383	−7'138	−7'521
Recoveries and doubtful interest income	756	722	1'478
Increase in loss allowances recognised in the income statement	10'322	9'198	19'520
Decrease in loss allowances recognised in the income statement	−10'476	−8'055	−18'531
Foreign currency translation and other adjustments	−1'507	1'612	105
As at 31 December 2016	**29'849**	**77'150**	**106'999**
As at 1 January 2017	29'849	77'150	106'999
Write-offs	−2'903	−15'397	−18'300
Recoveries and doubtful interest income	173	139	312
Increase in loss allowances recognised in the income statement	9'871	5'229	15'100
Decrease in loss allowances recognised in the income statement	−9'235	−12'078	−21'313
Foreign currency translation and other adjustments	4'150	−9'504	−5'353
As at 31 December 2017	**31'906**	**45'539**	**77'445**

14 Trading portfolio assets

in CHF thousands	31.12.2017	31.12.2016	+/−%
Debt instruments			
listed	51	3'610	−98.6
unlisted	0	162	−100.0
Total debt instruments	**51**	**3'772**	**−98.7**
Equity instruments			
listed	1	3	−63.1
unlisted	10	5	84.0
Total equity instruments	**11**	**9**	**30.3**
Total trading portfolio assets	**62**	**3'781**	**−98.4**

15 Derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. These instruments are fair value hedges. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients. Swiss banks having a high credit worthiness act as counterparties. The bank does not assume a market-maker function. Derivative financial instruments are used to a limited extent in the management of the bank's own securities portfolio.

The LLB Group employs fair value hedge accounting for interest rate risks on fixed-rate instruments. For this purpose it uses interest rate swaps. In the 2017 financial year, these had a nominal value of CHF 340 million (31.12.2016: CHF 240 million), as well as a positive replacement value of CHF 1.4 million (31.12.2016: CHF 1.3 million) and a negative replacement value of CHF 1.8 million (31.12.2016: CHF 2.2 million). At the same time, the loss on hedging instruments totalled CHF 0.8 million (2016: loss of CHF 0.5 million) and the profits on the hedged underlying transactions amounted to CHF 1.1 million (2016: profit of CHF 0.6 million).

in CHF thousands	Total PRV [°]	Total NRV [°]	Total contract volume
31.12.2016			
Derivative financial instruments in the trading portfolio			
Interest rate contracts			
Interest rate swaps	0	78'128	1'121'000
Forward contracts	30	1'060	72'168
Foreign exchange contracts			
Forward contracts	76'683	75'969	8'566'840
Over the counter (OTC) contracts	3'015	3'015	76'204
Precious metals contracts			
Forward contracts	226	251	18'020
Over the counter (OTC) contracts	6	6	239
Equity / Index contracts			
Over the counter (OTC) contracts	1'369	1'369	186'326
Equities			
Forward contracts	0	0	13'652
Total derivative financial instruments in the trading portfolio	**81'329**	**159'798**	**10'054'450**
Derivative financial instruments for hedging purposes			
Interest rate contracts			
Interest rate swaps (fair value hedge)	1'279	2'178	240'000
Total derivative financial instruments for hedging purposes	**1'279**	**2'178**	**240'000**
Derivative financial instruments	**82'607**	**161'976**	**10'294'450**

° PRV: Positive replacement values; NRV: Negative replacement values

in CHF thousands	Total PRV *	Total NRV *	Total contract volume
31.12.2017			
Derivative financial instruments in the trading portfolio			
Interest rate contracts			
Interest rate swaps	13	55'302	1'011'000
Forward contracts	11	146	31'498
Foreign exchange contracts			
Forward contracts	54'154	57'082	11'227'129
Over the counter (OTC) contracts	2'649	2'649	83'107
Precious metals contracts			
Forward contracts	5	5	247
Over the counter (OTC) contracts	25	25	2'505
Equity / index contracts			
Over the counter (OTC) contracts	445	445	108'711
Equities			
Forward contracts	0	0	23'298
Total derivative financial instruments in the trading portfolio	**57'302**	**115'653**	**12'487'495**
Derivative financial instruments for hedging purposes			
Interest rate contracts			
Interest rate swaps (fair value hedge)	1'438	1'795	340'000
Total derivative financial instruments for hedging purposes	**1'438**	**1'795**	**340'000**
Derivative financial instruments	**58'740**	**117'448**	**12'827'495**

* PRV: Positive replacement values; NRV: Negative replacement values

16 Financial investments at fair value

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Financial investments at fair value through profit and loss			
Debt instruments			
listed	915'108	854'312	7.1
unlisted	0	0	
Total debt instruments	**915'108**	**854'312**	**7.1**
Equity instruments			
listed	0	4	−100.0
unlisted	262'648	293'149	−10.4
Total equity instruments	**262'648**	**293'153**	**−10.4**
Total financial investments at fair value through profit and loss	**1'177'756**	**1'147'465**	**2.6**
Financial investments available for sale			
Debt instruments			
listed	282'317	198'745	42.0
unlisted	0	0	
Total debt instruments	**282'317**	**198'745**	**42.0**
Equity instruments			
listed	0	0	
unlisted	0	92'408	−100.0
Total equity instruments	**0**	**92'408**	**−100.0**
Total financial investments available for sale	**282'317**	**291'153**	**−3.0**
Total financial investments at fair value	**1'460'073**	**1'438'618**	**1.5**

17 Investment in joint venture

in CHF thousands	2017	2016	+ / – %
As at 1 January	47	47	−0.8
Additions / (Disposals)	0	0	
Share in profit / (loss)	−14	0	
As at 31 December	**33**	**47**	**−30.7**

Details of investment in joint venture

			Ownership interest in %	
Name	**Registered office**	**Business activity**	**2017**	**2016**
Data Info Services AG	Vaduz	Service company	50.0	50.0

in CHF thousands	2017	2016
Assets	102	868
Liabilities	8	773
Operating profit	724	740
Net profit	−29	−1

Investments in joint ventures are recognised in the balance sheet according to the equity method and are not substantial for the LLB Group. Losses are fully recognised in the balance sheet.

18 Property and other equipment as well as investment property

in CHF thousands	Property	Other equipment	Total property and other equipment	Investment property
As at 1 January 2016				
Cost	223'164	96'272	319'436	21'201
Accumulated depreciation / revaluation	−122'386	−73'728	−196'115	−4'961
Net book amount	**100'778**	**22'544**	**123'321**	**16'240**
Year ended December 2016				
Opening net book amount	100'778	22'544	123'321	16'240
Additions	13'490	19'084	32'573	0
Disposals	−16'967	−40'534	−57'501	−2'833
Depreciation / revaluation	−5'586	−6'902	−12'488	0
Disposals / (Additions) from accumulated depreciation / revaluation	8'068	30'996	39'063	2'611
Closing net book amount	**99'781**	**25'187**	**124'969**	**16'018**
As at 31 December 2016				
Cost	219'686	74'822	294'508	18'368
Accumulated depreciation / revaluation	−119'905	−49'635	−169'540	−2'350
Net book amount	**99'781**	**25'187**	**124'969**	**16'018**
Year ended December 2017				
Opening net book amount	99'781	25'187	124'968	16'018
Additions	16'613	9'755	26'368	0
Disposals	−12'381	−4'367	−16'748	−1'018
Depreciation / revaluation	−6'932	−7'609	−14'541	0
Disposals / (Additions) from accumulated depreciation / revaluation	1'187	3'843	5'029	0
Closing net book amount	**98'267**	**26'809**	**125'076**	**15'000**
As at 31 December 2017				
Cost	223'918	80'210	304'128	17'350
Accumulated depreciation / revaluation	−125'651	−53'401	−179'052	−2'350
Net book amount	**98'267**	**26'809**	**125'076**	**15'000**

Additional information

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Fire insurance value of property	242'020	249'338	– 2.9
Fire insurance value of other equipment	73'369	66'211	10.8
Fire insurance value of investment property	0	1'935	– 100.0
Fair value of investment property	15'000	16'018	– 6.4

There are no financing leases for premises or equipment. The investment property is held solely for the purpose of capital appreciation.

Future net commitments for operating leases

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Due to 2018	3'086	3'101	– 0.5
of which non-cancellable commitments	538	940	– 42.7
Due 2019 to 2023	7'237	6'657	8.7
of which non-cancellable commitments	447	741	– 39.6
Due 2024 and thereafter	3'284	1'647	99.3
of which non-cancellable commitments	564	583	– 3.2
Total future net commitments for operating leases	**13'606**	**11'405**	**19.3**
of which non-cancellable commitments	1'549	2'263	– 31.5

Operating expenses for 2017 include CHF thousands 3'712 and for 2016 CHF thousands 4'054 from operating leases. At year's end, the LLB Group was obligated under a number of non-cancellable operating leases for premises and equipment used mainly for banking purposes. The significant premises leases include renewal options and escalation clauses.

Future net receivables from operating leases

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Due to 2018	1'302	1'451	– 10.3
Due 2019 to 2023	3'858	4'512	– 14.5
Due 2024 and thereafter	3'016	3'673	– 17.9
Total future net receivables from operating leases	**8'176**	**9'636**	**– 15.2**

Other income for 2017 includes CHF thousands 1'509 and for 2016 CHF thousands 1'705 from operating leases.

19 Goodwill and other intangible assets

in CHF thousands	Goodwill	Other intangible assets	Software	Total
As at 1 January 2016				
Cost	55'620	55'763	109'403	220'786
Accumulated amortisation / impairment	0	−32'842	−63'452	−96'294
Net book amount	**55'620**	**22'921**	**45'951**	**124'492**
Year ended December 2016				
Opening net book amount	55'620	22'921	45'951	124'492
Additions	0	0	8'999	8'999
Disposals	0	0	−39'062	−39'062
Amortisation / impairment	0	−3'718	−11'342	−15'060
Disposals / (Additions) from accumulated amortisation / impairment	0	0	39'063	39'063
Closing net book amount	**55'620**	**19'203**	**43'609**	**118'432**
As at 31 December 2016				
Cost	55'620	55'763	79'340	190'723
Accumulated amortisation / impairment	0	−36'560	−35'730	−72'290
Net book amount	**55'620**	**19'203**	**43'609**	**118'432**
Year ended December 2017				
Opening net book amount	55'620	19'203	43'609	118'432
Additions	0	0	8'715	8'715
Disposals	0	0	−1'254	−1'254
Amortisation / impairment	0	−3'718	−10'514	−14'232
Disposals / (Additions) from accumulated amortisation / impairment	0	0	1'235	1'235
Closing net book amount	**55'620**	**15'485**	**41'791**	**112'896**
As at 31 December 2017				
Cost	55'620	55'763	86'801	198'184
Accumulated amortisation / impairment	0	−40'278	−45'009	−85'287
Net book amount	**55'620**	**15'485**	**41'791**	**112'896**

Goodwill

The LLB Group carried goodwill for the following segment:

in CHF thousands	31.12.2017	31.12.2016
Retail & Corporate Banking	55'620	55'620

Goodwill impairment testing

Goodwill is tested for impairment annually in the third quarter as a basis for the annual financial reporting at 31 December, and also as required. In order to determine a possible impairment, the recoverable amount of each cash generating unit which carries goodwill is compared with its balance sheet value. According to the calculations made, the recoverable amount of a cash generating unit always corresponds to the value in use. The balance sheet value or carrying value comprises equity before goodwill and intangible assets, as well as goodwill and intangible assets from the underlying purchase price allocation of this cash generating unit.

On the basis of the impairment testing carried out, management reached the conclusion that for the year ended on 31 December 2017, the total goodwill of CHF 55.6 million allocated to the cash generating unit Retail & Corporate Banking remains recoverable. No impairment needs to be recognised because the recoverable amount exceeds the balance sheet value.

Recoverable amount

For determining the value in use, which corresponds to the recoverable amount of the respective cash generating units, the LLB Group employs a discounted cash flow (DCF) valuation model. The DCF model used by the LLB Group takes into consideration the special characteristics of banking business and the financial services sector, as well as the regulatory environment. With the aid of the model, and on the basis of the financial planning approved by management, the cash value of estimated free cash flow is calculated. If regulatory capital requirements exist for the cash generating unit, these capital requirements are deducted from the estimated free cash flows for the respective period and are available to the cash generating unit for distribution. This amount then corresponds to the theoretical sum that could be paid out to the shareholders. For the assessment of the forecasted earnings, management employs approved financial plans covering a period of five years. The results of all periods after the fifth year are extrapolated from the forecasted result or the free cash flow of the fifth year together with a long-term growth rate corresponding to the long-term inflation rate in Switzerland and Liechtenstein. Under certain circumstances, the growth rates may vary for the individual cash generating units because the probable developments and conditions in the respective markets are taken into account.

Assumptions

As far as possible, the parameters on which the valuation model is based are coordinated with external market information. In this context, the value in use of a cash generating unit is most sensitive to changes in the forecasted earnings, changes to the discount rate and changes in the long-term growth rate. The discount rate is determined on the basis of the capital asset pricing model (CAPM), which contains a risk-free interest rate, a market risk premium, a small cap premium, as well as a factor for the systematic market risk, i.e. the beta factor.

The long-term growth rates outside the five-year planning period (terminal value), on which the impairment tests for the annual report as at 31 December 2017 were based and which were used for extrapolation purposes, as well as the discount rates for the individual cash generating units, were unchanged from the parameters used at 31 December 2016. The parameters used are shown in the table below. The discount rate is directly influenced by the fluctuation of interest rates. On account of the unchanged, historically low interest rate levels on the market, the discount rate of the cash generating units has not changed in comparison with the previous year. In a longer-term comparison, the present interest rate environment is also reflected in substantially lower interest income as well as corresponding lower annual earnings and free cash flows distributable to shareholders. On account of the fact that the discount rate is linked to current interest rate levels, when the latter rise, basically the discount rate, and interest income, will also rise. The cash generating units are exposed to only a limited level of risk because they operate in a local market, and only in retail and private banking with a limited risk profile.

Sensitivities

During the periodic preparation and execution of impairment tests, all the parameters and assumptions, on which the testing of the individual cash generating units is based, are reviewed and – if necessary – adjusted. A change in the risk-free interest rate has an influence on the discount rate, whereby a change in the economic situation, especially in the financial services industry, also has an impact on the expected or estimated results. In order to check these effects on the value in use of the individual cash generating units, the parameters and assumptions employed with the valuation model are subjected to a sensitivity analysis. For this purpose, the forecasted free cash flow attributable

	Growth rate		Discount rate	
in percent	2017	2016	2017	2016
Retail & Corporate Banking	1.0	1.0	6.0	6.0

to shareholders is changed by 10 percent, the discount rate by 10 percent and the long-term growth rates by 10 percent. According to the results of the impairment tests carried out, and based on the described assumptions, an amount of CHF 37.9 million in excess of the balance sheet value is obtained for the Retail & Corporate Banking segment. A reduction of the free cash flow of 10 percent would lead to an impairment of CHF 14.0 million in the goodwill of the Retail & Corporate Banking segment and an increase in the discount rate by 10 percent would lead to an impairment of CHF 20.1 million. A reduction in the long-term growth rate of 10 percent would not lead to any impairment. The discount rate could be increased by 6.3 percent and the free cash flow could be reduced by 7.3 percent before the recoverable amount would correspond to the book value.

In view of the challenging situation in the financial services industry, which is expected to persist in the future, the management estimates that an impairment of the goodwill in the Retail & Corporate Banking segment in the coming financial years is not improbable. However, thanks to the relative strength in comparison with competitors as well as the realised and planned cost-cutting and efficiency improvement measures, a positive development of the segment is expected over the medium to long-term.

If the estimated earnings and other assumptions in future financial years deviate from the current outlook due to political or global risks in the banking industry – such as for example due to uncertainty in connection with the implementation of regulatory provisions and the introduction of certain legislation, or a decline in general economic performance – this could result in an impairment of the goodwill in the future. This would lead to a reduction in the income statement of the LLB Group and a decrease in the equity attributable to shareholders and net profit. Such an impairment would not, however, have an impact on cash flows or on the Tier 1 ratio because – in accordance with Liechtenstein equity capital ordinance – goodwill must be deducted from capital.

Other intangible assets

Customer relationships and brand values are reported as assets under other intangible assets. These are amortised over a period of 15 years on a straight-line basis. Estimated aggregated amortisation on intangible assets amounts to:

in CHF thousands	
2018	3'718
2019	3'718
2020	3'718
2021	3'718
2022	613
2023 and thereafter	0
Total	**15'485**

20 Other assets

in CHF thousands	31.12.2017	31.12.2016	+/– %
Settlement accounts	1'032	2'388	–56.8
VAT and other tax receivables	1'111	1'033	7.6
Precious metals holdings	29'671	12'346	140.3
Total other assets	**31'814**	**15'767**	**101.8**

21 Assets pledged

	31.12.2017		31.12.2016	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Financial investments	82'980	0	40'091	0
Mortgage loans	1'096'910	880'400	999'269	788'200
Total assets pledged	**1'179'890**	**880'400**	**1'039'360**	**788'200**

The financial investments are pledged with national and central banks for Lombard limits, for stock exchange guarantees and to safeguard the business activity of foreign organisations pursuant to local legal provisions. The amounts due from banks and mortgage loans are pledged as collateral for loans and shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions.

22 Due to banks

in CHF thousands	31.12.2017	31.12.2016	+ / – %
On demand	204'110	109'723	86.0
At maturity or callable	739'205	513'209	44.0
Total due to banks	**943'316**	**622'932**	**51.4**

23 Due to customers

in CHF thousands	31.12.2017	31.12.2016	+ / – %
On demand	10'623'400	10'246'998	3.7
At maturity or callable	1'339'516	1'286'388	4.1
Savings accounts	3'689'242	4'327'079	– 14.7
Total due to customers	**15'652'158**	**15'860'465**	**– 1.3**

24 Debt issued

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Medium-term notes *	286'014	437'200	– 34.6
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions **	883'014	790'836	11.7
Total debt issued	**1'169'027**	**1'228'035**	**– 4.8**

* The average interest rate was 0.66 percent as at 31 December 2017 and 0.60 percent as at 31 December 2016.
** The average interest rate was 1.16 percent as at 31 December 2017 and 1.41 percent as at 31 December 2016.

25 Deferred taxes

in CHF thousands	As at 1 January	Amount recognised in the income statement	Amount recognised in other comprehensive income	Change from additions and disposals to the scope of consolidation	As at 31 December
Deferred tax assets					
2016					
Tax losses carried forward	1'256	29	145	0	1'430
Property and equipment	4'081	–533	0	0	3'548
Liability for pension plans	13'463	860	1'935	0	16'258
Intangible assets	0	126	0	0	126
Derivative financial instruments	4'869	2'091	0	0	6'960
Total	**23'669**	**2'573**	**2'080**	**0**	**28'322**
Offsetting					–9'513
Total after offsetting					**18'809**
2017					
Tax losses carried forward	1'430	0	–72	0	1'359
Property and equipment	3'548	77	0	0	3'625
Liability for pension plans	16'258	340	–2'875	0	13'724
Intangible assets	126	–126	0	0	0
Derivative financial instruments	6'960	–2'069	0	0	4'891
Total deferred tax assets	**28'322**	**–1'778**	**–2'947**	**0**	**23'599**
Offsetting					–10'956
Total after offsetting					**12'642**
Deferred tax liabilities					
2016					
Credit loss (expense) / recovery	17	–17	0	0	0
Intangible assets	4'580	–739	0	0	3'841
Property	949	–949	24	0	24
Financial investments	9'289	–2'649	514	0	7'154
Provisions	6'782	5'458	0	0	12'240
Total deferred tax liabilities	**21'617**	**1'103**	**538**	**0**	**23'258**
Offsetting					–9'513
Total after offsetting					**13'745**
2017					
Credit loss (expense) / recovery	0	0	0	0	0
Intangible assets	3'841	–744	0	0	3'097
Property	24	0	–24	0	0
Financial investments	7'154	3'063	–125	0	10'091
Provisions	12'240	0	0	0	12'240
Total deferred tax liabilities	**23'258**	**2'319**	**–149**	**0**	**25'428**
Offsetting					–10'956
Total after offsetting					**14'472**

As at 31 December 2017, there existed temporary differences of CHF thousands 2'365 which were not booked as deferred taxes and which in future could be offset with potential tax allowances (previous year: CHF thousands 3'406).

The tax losses which were not recognised as deferred tax assets as at 31 December 2017 expire as follows:

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Within 1 year	0	0	
Within 2 to 5 years	0	0	
Within 6 to 7 years	0	0	
No expiry	2'365	3'406	– 30.6
Total	**2'365**	**3'406**	**– 30.6**

In general, tax losses in Switzerland can be carried forward for seven years; in the Principality of Liechtenstein and Austria, they can be carried forward for an unlimited period.

26 Provisions

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2017	Total 2016
As at 1 January	46'957	4'114	51'071	25'354
Provisions applied	– 18'991	– 1'346	– 20'337	– 347
Increase in provisions recognised in the income statement	21	3'112	3'134	28'929
Decrease in provisions recognised in the income statement	– 5'020	– 720	– 5'740	– 2'865
As at 31 December	**22'967**	**5'161**	**28'128**	**51'071**

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Short-term provisions	28'128	51'071	– 44.9
Long-term provisions	0	0	
Total	**28'128**	**51'071**	**– 44.9**

The provisions for restructuring relate to the StepUp2020 strategy announced in October 2015. As at 31 December 2017, provisions amounting to CHF 1.0 million for restructuring, covering estimated rebuilding and restoration costs and expenses for social plans were allocated.

The LLB Group is involved in various legal proceedings within the scope of normal banking business. It allocates provisions for ongoing and threatened legal proceedings if, in the opinion of LLB, payments or losses are likely and the amounts can be estimated.

As at 31 December 2017, the LLB Group was involved in various litigation and proceedings, which could have an impact on its financial reporting. The LLB Group endeavours to disclose the claims for damages, the scope of legal proceedings and other relevant information in order for the reader to be able to estimate the possible risk for the LLB Group.

LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks which must achieve an individual solution with the US authorities to resolve the US taxation dispute. LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., with its registered office in Zurich-Erlenbach, is responsible for the proceedings. LLB (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Federal Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG is cooperating closely with the US authorities and is working with them to achieve a final settlement of the issue, while complying with the prevailing legal regulations. In the opinion of the management, the legal risk of an outflow of resources in connection with the possibility that LLB Verwaltung (Switzerland) AG may not have complied with US law, especially US tax law, was still not unlikely as at 31 December 2017. Based on the calculation criteria applied in the non-prosecution agreement between LLB AG, Vaduz, and the US authorities, as well as the latest information and payments made by other banks, a provision was recorded in the balance sheet by LLB Verwaltung (Switzerland) AG as at 31 December 2017. The management believes the provision set aside is sufficient.

At the start of 2015, LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., received two legal claims in connection with an investment project. Several persons, who have no connection with LLB Verwaltung (Switzerland) AG, had endeavoured to persuade an investor to invest a sum in an investment project. The investment project did not exist and the persons acting fraudulently were able to embezzle a part of the investment sum. The claimants have lodged claims against LLB Verwaltung (Switzerland) AG for the payment of damages in respect of a part of the embezzled amount plus interest. LLB Verwaltung (Switzerland) AG denies that the actions of a former employee of LLB Verwaltung (Switzerland) AG led to the loss. At the beginning of October 2017, the High Court of Justice in London ruled at first instance that there had been misconduct on the part of a former employee and that LLB Verwaltung (Switzerland) AG was jointly liable for his misconduct and for the damage caused by him. LLB Verwaltung (Switzerland) AG was not liable for misconduct itself. The ruling is not yet legally binding. The possibility of an appeal is being considered. On the basis of the first instance ruling and the non-suspensive effect of a possible appeal, LLB Verwaltung (Switzerland) AG has deposited an amount of CHF 15.1 million with the court for damages, interest charges and third party attorneys' fees. These costs were booked as general and administrative costs in accordance with the IFRS accounting regulations. LLB Verwaltung (Switzerland) AG continues to believe that this damage is covered by the insurance company.

Liechtensteinische Landesbank AG has reached an agreement with the German authorities in connection with the untaxed assets of German clients. LLB AG made a one-time payment of EUR 16.7 million in the first half of 2017. This payment is fully covered by provisions for legal and litigation risks and has no adverse effect on the interim financial result. The unrequired portion of the provision of CHF 5.0 million was released through profit and loss. The agreement reached with the authorities in North Rhine-Westphalia to settle the negative legacy of the past establishes clarity and legal certainty. It applies to all German states.

27 Other liabilities

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Outstanding medium-term notes	79	124	– 36.2
Charge accounts	6'179	6'491	– 4.8
Accounts payable	26'419	26'089	1.3
Settlement accounts	15'536	21'461	– 27.6
Pension plans	107'669	116'608	– 7.7
Outstanding holidays / flexi-time	2'927	2'217	32.0
Other long-term benefits	3'811	3'914	– 2.6
Total other liabilities	**162'619**	**176'905**	**– 8.1**

28 Share capital

	31.12.2017	31.12.2016	+ / – %
Number of registered shares (authorised and fully paid up) *	30'800'000	30'800'000	0.0
Nominal value per registered share (in CHF) *	5	5	0.0
Total nominal value (in CHF thousands)	**154'000**	**154'000**	**0.0**

* The General Meeting of 12 May 2017 approved the conversion of the previous bearer shares into registered shares. The conversion took place on 18 May 2017.

29 Share premium

in CHF thousands	2017	2016	+ / – %
As at 1 January	24'968	25'785	– 3.2
Net movements in treasury shares	– 1'458	– 818	78.3
As at 31 December	**23'509**	**24'968**	**– 5.8**

30 Treasury shares

	Quantity	in CHF thousands
As at 1 January 2016	1'978'202	168'584
Purchases	0	0
Disposals	– 18'964	– 1'539
As at 31 December 2016	**1'959'238**	**167'045**
Purchases	0	0
Disposals	– 36'301	– 3'159
As at 31 December 2017	**1'922'937**	**163'886**

31 Retained earnings

in CHF thousands	2017	2016	+ / – %
As at 1 January	1'758'816	1'709'205	2.9
Net profit attributable to the shareholders of LLB	105'739	98'181	7.7
Dividends of LLB	–49'091	–46'145	6.4
Increase / (Reduction) in non-controlling interests	–10	–2'426	–99.6
As at 31 December	**1'815'454**	**1'758'816**	**3.2**

32 Other reserves

in CHF thousands	2017	2016	+ / – %
As at 1 January	–74'511	–63'849	
Foreign currency translation	4'155	–419	
Actuarial gains / (losses) of pension plans	10'577	–13'821	
Value changes to financial investments available for sale	–2'591	3'516	
Increase / (Reduction) in non-controlling interests	0	62	
As at 31 December	**–62'371**	**–74'511**	**–16.3**

33 Non-controlling interests

in CHF thousands	2017	2016	+ / – %
As at 1 January	110'146	102'787	
Non-controlling interests in net profit	5'520	5'688	–2.9
(Dividend) / Reduction of nominal value in non-controlling interests	–1'623	–1'623	–0.0
Increase / (Reduction) in non-controlling interests	10	3'269	–99.7
Actuarial gains / (losses) of pension plans	2'224	–22	
Value changes to financial investments available for sale	–1	47	
As at 31 December	**116'276**	**110'146**	**5.6**

34 Fair value measurement

Measurement guidelines

The fair value represents a market-based measurement and not an entity-specific valuation. It is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date on the principal market or the most advantageous market.

As far as possible, the fair value is determined on the basis of the quoted market prices in active markets accessible to the company on the measurement date. An active, accessible market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value is determined using significant and observable inputs. These are basically available in the case of quoted assets or liabilities. If a market for financial or non-financial assets or liabilities is inactive, or if no observable inputs, or insufficient observable inputs, are available, the LLB Group must employ techniques or processes (valuation methods or models) to determine the fair value. The valuation techniques contain assumptions, including estimates, to enable an exit price on the measurement date from the perspective of the market participant to be determined. However, such assumptions and estimates contain uncertainties, which at a later date can lead to substantial changes in the fair value of financial and non-financial assets and liabilities. In the case of financial and non-financial assets and liabilities, for which a valuation technique involving non-observable market data is used to determine the fair value, these are measured at the transaction price. This fair value can differ from the fair value determined on the basis of valuation techniques.

All financial and non-financial assets and liabilities measured at fair value are categorised into one of the following three fair value hierarchies:

Level 1

The fair value of listed securities and derivatives contained in the trading portfolio and financial investments is determined on the basis of market price quotes on an active market.

Level 2

If no market price quotes are available, the fair value is determined by means of valuation methods or models, which are based on assumptions made on the basis of observable market prices and other market quotes.

Level 3

For the remaining financial instruments neither market price quotes nor valuation methods or models based on market prices are available. Our own valuation methods or models are employed to measure the fair value of these instruments.

Valuation methods

Valuation methods and techniques are employed to determine the fair value of financial and non-financial assets and liabilities for which no observable market prices on an active market are available. These include, in particular, illiquid financial investments. If available, the LLB Group uses market-based assumptions and inputs as the basis for valuation techniques. If such information is not available, assumptions and inputs from comparable assets and liabilities are employed. In the case of complex and very illiquid financial and non-financial assets and liabilities, the fair value is determined using a combination of observable transaction prices and market information.

The LLB Group employs standardised and accepted valuation techniques to determine the fair value of financial and non-financial assets and liabilities which are not actively traded or listed. In general, the LLB Group uses the following valuation methods and techniques as well as the following inputs.

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Own investment funds	Market to model	Market prices of underlying assets	
Derivative financial instruments	Option model	Underlying assets of future contracts	
Due from banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Loans	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to customers	Present value calculation	Marktet price of congruent LIBOR interest rates	
Debt issued	Present value calculation	Marktet price of congruent LIBOR interest rates	
Accrued income and prepaid expenses / Accrued expenses and deferred income	Fair value corresponds to carrying value on account of the short-term maturity	Price conditions; deferred income corresponds to deferrals on commissions and fees	
Level 3			
Financial investments at fair value through profit and loss	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.
Non-current assets held for sale	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of financial and non-financial assets and liabilities of the LLB Group within the fair value hierarchy. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As at 31 December 2017, the LLB Group had no assets or liabilities which were measured at fair value on a non-recurring basis in the balance sheet. In the 2017 financial year there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Level 1			
Trading portfolio assets	52	3'613	–98.6
Financial investments at fair value through profit and loss	915'108	831'390	10.1
Financial investments available for sale	282'317	198'745	42.0
Total financial instruments at fair value	**1'197'477**	**1'033'749**	**15.8**
Cash and balances with central banks	4'129'723	3'450'726	19.7
Total financial instruments not at fair value	**4'129'723**	**3'450'726**	**19.7**
Total Level 1	**5'327'201**	**4'484'474**	**18.8**
Level 2			
Trading portfolio assets	10	168	–94.0
Derivative financial instruments	58'740	82'607	–28.9
of which for hedging purpose	1'438	1'279	12.4
Financial investments at fair value through profit and loss	239'199	293'149	–18.4
Financial investments available for sale	0	92'408	–100.0
Total financial instruments at fair value	**297'949**	**468'332**	**–36.4**
Due from banks	1'940'433	3'116'584	–37.7
Loans	12'083'966	12'090'778	–0.1
Accrued income and prepaid expenses	39'395	32'568	21.0
Total financial instruments not at fair value	**14'063'794**	**15'239'930**	**–7.7**
Total Level 2	**14'361'742**	**15'708'262**	**–8.6**
Level 3			
Financial investments at fair value through profit and loss	23'449	22'926	2.3
Total financial instruments at fair value	**23'449**	**22'926**	**2.3**
Total financial instruments not at fair value	**0**	**0**	
Investment property	15'000	16'018	–6.4
Non-current assets held for sale	6'734	845	
Total other assets at fair value	**21'734**	**16'863**	**28.9**
Total Level 3	**45'183**	**39'789**	**13.6**
Total assets	**19'734'126**	**20'232'525**	**–2.5**

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Level 1			
Total Level 1	**0**	**0**	
Level 2			
Derivative financial instruments	117'448	161'976	– 27.5
of which for hedging purpose	1'795	2'178	– 17.6
Total financial instruments at fair value	**117'448**	**161'976**	**– 27.5**
Due to banks	943'316	624'153	51.1
Due to customers	15'652'158	15'939'393	– 1.8
Debt issued	1'169'027	1'289'599	– 9.3
Accrued expenses and deferred income	30'250	26'228	15.3
Total financial instruments not at fair value	**17'794'750**	**17'879'373**	**– 0.5**
Total Level 2	**17'912'198**	**18'041'349**	**– 0.7**
Level 3			
Total Level 3	**0**	**0**	
Total liabilities	**17'912'198**	**18'041'349**	**– 0.7**

Measurement of assets and liabilities, classified as Level 3

For the recurring measurement of the fair value of financial investments for which significant, non-observable inputs have been used and which are classified as Level 3, the effects on the income statement in the 2017 financial year amounted to CHF 0.5 million. For the recurring measurement of the fair value of investment property, for which significant, non-observable inputs have been used and which are classified as Level 3, the effects on the income statement in the 2017 financial year are immaterial and therefore they are not shown. The measurement or valuation also had no influence on other comprehensive income in 2017. The change in value is solely due to the reclassification of a property in non-current assets held for sale. The properties classified in non-current assets held for sale in 2016 were sold as planned. The change in value between the current and the comparison period therefore relates to new properties, which were classified in 2017 as subject to treatment under IFRS 5.

The measurement process to determine the fair value of recurring and non-recurring Level 3 assets and liabilities, especially the significant non-observable inputs, as shown in the previous table, are explained in the following. The interrelationships between observable and non-observable inputs are not explained in the following, because such interrelationships have no significant influence on the measurement of fair value.

Financial investments at fair value through profit and loss

Financial investments are periodically valued through profit and loss on the basis of market values provided by external experts. The financial investments consist of the non-listed shares of companies, which are periodically revalued on the basis of current company data or by third parties with the aid of valuation models. The valuation is made available to shareholders. An own valuation by shareholders with the aid of a valuation model based on observable or significant non-observable inputs is therefore unnecessary. How changes would affect the fair value, or how sensitively this would react, cannot be quantified or would have to be based on various assumptions to be made by LLB on how the company will develop. Since these are investments having an infrastructure character, whereby basically the fair value has changed in the last few years only by the amount of profit attained, a sensitivity analysis would bring no additional benefit for the reader of the financial statement.

Investment property

Investment property is periodically valued by external experts or is valued on the basis of relative values in a market comparison. If no corresponding values for comparable properties are available, on which to base a reliable calculation of the fair value, assumptions are made. These assumptions contain assessments and considerations of such circumstances as the location and condition of the property, as well as the expected costs and revenues with it. Properties are always revalued whenever on the basis of events or changed circumstances the fair value no longer reflects the market price, so that changes in the calculation of the fair value can be promptly determined and recognised in the accounts. Changes in the inputs, on which the measurement of the fair value is based, can lead to significant changes in it. It cannot be quantified to what extent changes influence the fair value and the sensitivity of fair value, because the valuation of a property is based on an individual measurement, which is influenced by various assumptions. Consequently, a significant change in the fair value can occur, which is not quantifiable. Investment properties do not diverge to highest and best use.

Non-current assets held for sale

Only properties which are wholly owned fall under non-current assets held for sale. Currently, these encompass bank branches, rental apartments and unused real estate (see also Note 36 "Non-current assets held for sale"). These are valued as "Investment property".

Financial investments not measured at fair value

The fair value hierarchy also includes details of financial assets and liabilities, which are not measured on a fair value basis, but for which a fair value does exist. In addition to their inclusion in the fair value hierarchy, basically a comparison between the fair value and the carrying value of the individual categories of financial assets and liabilities is to be presented.

The following table shows this comparison only for positions, which were not measured at fair value, since for positions measured at fair value the carrying value corresponds to the fair value. On account of the maturity being more than one year, for specific positions, a present value was calculated taking as a basis LIBOR interest rates appropriate for the duration of the term. In the case of all other positions, the carrying value represents a reasonable approximation of the fair value.

	31.12.2017		31.12.2016	
in CHF thousands	Book amount	Fair value	Book amount	Fair value
Assets				
Cash and balances with central banks	4'129'723	4'129'723	3'450'726	3'450'726
Due from banks	1'940'433	1'944'825	3'114'861	3'116'584
Loans	12'083'966	12'595'887	11'538'876	12'090'778
Accrued income and prepaid expenses	39'395	39'395	32'568	32'568
Liabilities				
Due to banks	943'316	945'030	622'932	624'153
Due to customers	15'652'158	15'708'690	15'860'465	15'939'393
Debt issued	1'169'027	1'215'905	1'228'035	1'289'599
Accrued expenses and deferred income	30'250	30'250	26'228	26'228

35 Netting of financial assets and financial liabilities

The following table provides an overview of the financial assets and financial liabilities which are subject to an enforceable netting agreement or similar agreements. The LLB Group has concluded agreements with various counterparties which permit netting. These are mainly agreements in connection with securities lending and borrowing transactions, reverse-repurchase deals and over-the-counter transactions. The LLB Group does not conduct netting with the financial assets and financial liabilities of balance sheet transactions because the legal requirements for netting are not satisfied. Accordingly, the table shows unnetted amounts in the balance sheet, risks therefore which the bank has accepted with the individual executed transactions, and which existed on the balance sheet date. The information provided in the table does not represent the current credit risk in connection with the transactions conducted by the LLB Group.

in CHF thousands	On the balance sheet recognised amounts	Potential netting amounts: Financial instruments	Potential netting amounts: Financial collaterals	Amounts after potential netting
31.12.2016				
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements				
Reverse repurchase agreements	238'874	0	176'431	62'443
Positive replacement values	82'607	1'166	74'269	7'172
Cash collateral receivables on derivative instruments	118'747	0	118'747	0
Total assets	**440'228**	**1'166**	**369'447**	**69'615**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements				
Repurchase agreements	42'903	0	42'863	40
Negative replacement values	161'976	0	118'747	43'229
Cash collateral payables on derivative instruments	2'842	0	2'842	0
Total liabilities	**207'721**	**0**	**164'452**	**43'269**
31.12.2017				
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements				
Reverse repurchase agreements	117'203	0	116'823	380
Positive replacement values	58'740	5'181	48'745	4'813
Cash collateral receivables on derivative instruments	82'199	0	82'199	0
Total assets	**258'142**	**5'181**	**247'768**	**5'193**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements				
Repurchase agreements	150'000	0	149'929	71
Negative replacement values	117'448	0	82'199	35'249
Cash collateral payables on derivative instruments	1'769	0	1'769	0
Total liabilities	**269'217**	**0**	**233'897**	**35'320**

36 Non-current assets held for sale

Properties, which are fully owned by individual Group companies, are available for immediate sale. The balance sheet value of these properties amounts to CHF 6.7 million and encompasses single-family houses, rental apartments and plots of forested land. Two properties from the pool will probably be sold in the first quarter of 2018. Their carrying value amounts to CHF 1.7 million. It is assumed that the sales will realise a profit of around CHF 0.3 million.

Notes to the consolidated off-balance sheet transactions

37 Contingent liabilities

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Collateral guarantees and similar instruments	19'933	20'984	– 5.0
Performance guarantees and similar instruments	34'665	41'855	– 17.2
Total contingent liabilities	**54'598**	**62'839**	**– 13.1**

38 Credit risks

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Irrevocable commitments	247'724	254'805	– 2.8
Deposit and call liabilities	9'141	9'104	0.4
Total credit risks	**256'865**	**263'909**	**– 2.7**

39 Fiduciary transactions

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Fiduciary deposits with other banks	362'276	221'961	63.2
Fiduciary loans	0	403'604	– 100.0
Other fiduciary financial transactions	2'012	404'810	– 99.5
Total fiduciary transactions	**364'288**	**1'030'375**	**– 64.6**

40 Lending and pension transactions with securities

LLB has own securities which have been lent or pledged by LLB. These are recognised in LLB's balance sheet and recorded in the table below. Furthermore, securities owned by third parties, which LLB received as collateral and in some cases has repledged or resold are reported in the table. These are not recognised in LLB's balance sheet.

	31.12.2017		31.12.2016	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with repurchase agreements	177'305	177'305	33'391	33'391
of which capable of being resold or further pledged without restrictions	177'305	177'305	33'391	33'391
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	0	395'266	0	622'876
of which resold or further pledged securities	0	41'864	0	42'707

Pension plans and other long-term benefits

41 Pension plans

Post-employment benefits

The LLB Group has established a number of pension plans in compliance with prevailing legal provisions, which insure most employees in the event of death, invalidity and retirement. In addition, further plans exist for long-service anniversaries, which qualify as other long-term employee benefits. In the case of the pension plans, contributions are made by employees, which are then supplemented by corresponding contributions from the LLB Group. The pension schemes are financed in compliance with the local legal and fiscal regulations. The risk benefits are based on the insured salary and the pension benefits on the accumulated capital. The assets of the funded pension plans are held within separate foundations or insurances and may not revert to the employer. The mortality rates specified in the Professional Pensions Law 2015 (BVG 2015) were employed to calculate the mortality, life expectancy and invalidity rates for all pension plans. The last actuarial valuations were performed on 31 December 2017 and 31 December 2016. The actuarial gains and losses are included in other comprehensive income. Joint committees are set up for pension plans, which are administered via collective foundations.

The foundation board of the autonomous pension foundation is also composed of an equal number of employee and employer representatives. On the basis of the legal provisions and the pension plan regulations, the foundation board is obligated to act solely in the interest of the foundation and the actively insured persons and pensioners. Consequently, in this pension plan the employer itself may not decide on benefits and their financing, rather decisions must be taken on equal terms.

The foundation board is responsible for determining the investment strategy, for amendments to the pension plan regulations, and especially for the financing of the pension plan benefits. The foundation board members of the pension plans specify investment guidelines for the investment of the pension plan assets, which contain the tactical asset allocation and the benchmarks for the comparison of performance with a general investment universe. The assets of the pension plans are well diversified. With regard to diversification and security, the legal provisions of the BPVG Pension Law apply to pension plans in Liechtenstein, and the legal provisions of the BVG Pension Law apply to pension plans in Switzerland. The foundation board members continually monitor whether the selected investment strategy is suitable for the provision of the pension plan benefits and whether the risk budget corresponds to the demographic structure. The observance of the investment guidelines and the investment performance of the investment advisers are reviewed on a quarterly basis. In addition, the investment strategy and its suitability and effectiveness are periodically checked by an external consultant.

The pension plan is designed as a defined contribution plan, i.e. a savings account is maintained for all the retirement benefits of each employee. The annual savings contributions and interest (no negative interest is possible) are credited to the pension savings account annually. At the time of retirement, the insured person may choose between a life-long pension, which includes a reversional spouse pension, or the withdrawal of the savings capital. In addition to the retirement benefits, the pension plan also includes invalidity and partner pensions. These are calculated on the basis of the insured annual salary (defined benefit plan). Furthermore, the insured employee may purchase improvements to his pension plan up to a maximum sum specified in the regulations. If the employee leaves the company, the savings credit balance is transferred to the new employer's pension plan or to a blocked pension savings account. When determining the benefits, the minimum provisions of the Professional Pension Plans Law (BPVG) and its implementing ordinance are to be observed. The minimum salary to be insured and the minimum pension savings balance sum are stipulated in the BPVG. On account of the pension plan structure and the legal provisions of the BPVG, the employer is subject to actuarial risks. The most important of these are investment risk, interest rate risk and longevity risk. The risks of death and invalidity have been congruently re-insured since. Currently, the individually accumulated pension capital is converted into a life-long pension at age 64 with a pension conversion rate of 5.60 percent. This conversion rate is reduced annually and will amount to 5.10 percent from 1 January 2022. Amendments to the contribution payments made by the bank, the associate companies, or the employees – in accordance with the regulations – require the approval of the bank, the associate companies and a majority of all employees. The employer must bear at least half of the contributions. In the event of underfunding, financial recovery contributions may be charged to both the employer and the employee to eliminate the shortfall in coverage.

One-time effects influencing pension plans and other long-term benefits

The Pension Fund Foundation of LLB AG reduced the conversion rate for the calculation of the life-long pension. In the 2016 financial year this led to a one-time reduction in the benefit expenses for defined benefit plans of CHF 10.2 million.

The following amounts were recognised in the income statement and equity as pension costs:

Benefit expenses

	Pensions plans		Other long-term benefits	
in CHF thousands	2017	2016	2017	2016
Defined benefit costs				
Service cost				
Current service cost	−17'911	−16'090	−449	−452
Past service cost including effects of curtailment	−1'118	10'202	0	0
Total service cost	**−19'029**	**−5'888**	**−449**	**−452**
Net interest				
Interest cost on defined benefit obligation	−3'565	−3'981	−27	−33
Interest income on plan assets	2'823	3'245	0	0
Total net interest	**−742**	**−736**	**−27**	**−33**
Administration expense	−610	−600		0
Net actuarial (losses) / gains recognised	0	0	−20	125
Total defined benefit cost	**−20'381**	**−7'224**	**−496**	**−360**
of which personnel expenses	−20'381	−7'224	−496	−360
of which financial expense	0	0	0	0
Contributions to defined contribution plans	**−231**	**−212**	**0**	**0**
Remeasurement of the defined benefit liability				
Actuarial (gains) / losses				
Arising from changes in demographic assumptions	0	2'897		
Arising from changes in economic assumptions	7'230	−11'331		
Arising from experience	−8'998	−13'817		
Return on plan assets (excl. amounts in interest income)	17'444	6'473		
Total defined benefit cost recognised in other comprehensive income	**15'676**	**−15'778**		
Total benefit cost	**−4'936**	**−23'214**	**−496**	**−360**

Development of plan obligations

	Pensions plans		Other long-term benefits	
in CHF thousands	**2017**	**2016**	**2017**	**2016**
As at 1 January	516'504	483'502	3'914	4'092
Current service cost	17'911	16'090	449	452
Plan participation contributions	7'166	6'910	0	0
Interest costs	3'565	3'981	27	33
Benefits paid through pension assets	−13'980	−6'026	0	0
Benefits paid by employer	−12	−2	−624	−536
Actuarial (gains) / losses	1'768	22'251	20	−125
Plan amendments	1'118	−10'202	0	0
Exchange rate differences	5	0	25	−2
As at 31 December	**534'045**	**516'504**	**3'811**	**3'914**
of which active employees	372'297	357'399		
of which pensioners	161'748	159'105		
Average term of obligation	17.7	18.3		

Development of plan assets

	Pension plans	
in CHF thousands	**2017**	**2016**
As at 1 January	399'896	376'838
Plan participation contributions	7'166	6'910
Company contributions	13'637	13'056
Interest income on plan assets	2'823	3'245
Administration expense	−610	−600
Benefits paid through pension assets	−13'980	−6'026
Return on plan assets (excl. amounts in interest income)	17'444	6'473
As at 31 December	**426'376**	**399'896**

The pension fund assets as at 31 December 2017 include shares of LLB with a market value of CHF thousands 15 (31.12.2016: CHF thousands 10). The expected Group contributions for the 2018 financial year amount to CHF thousands 13'437 for the pension plans and CHF thousands 560 for the other long-term benefits.

Overview of net debt recognised in the balance sheet

	Pension plans		Other long-term benefits	
in CHF thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Present value of funded obligations	533'222	516'002	0	0
Minus fair value of plan assets	426'376	399'896	0	0
Under- / (Over-)funded	**106'846**	**116'106**	**0**	**0**
Present value of unfunded obligations	823	502	3'811	3'914
Net debt recognised in the balance sheet	**107'669**	**116'608**	**3'811**	**3'914**

Asset classes and expected returns

	31.12.2017	31.12.2016
in CHF thousands	Share of total assets	Share of total assets
Equities		
listed market prices (Level 1)	90'895	80'977
other than listed market prices	0	0
Bonds		
listed market prices (Level 1)	154'196	150'954
other than listed market prices	0	0
Real estate		
listed market prices (Level 1)	1'581	1'193
other than listed market prices	24'600	24'894
Alternative financial investments	28'937	910
Qualified insurance policies	97'431	91'888
Other financial investments	0	18'790
Cash and cash equivalents	28'736	30'290

The expected return on bonds and shares is based on the yield for long-term Federal notes and the corresponding market expectations. The remaining expected returns are based on empirical values.

Weighted average of principal actuarial assumptions

	Pension plans		Other long-term benefits	
in percent	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Discount rate	0.70	0.70	0.75	0.74
Future salary increases	1.50	1.50	1.58	1.56
Future pension indexations	0.00	0.05	0.92	0.94
Life expectancy at the age of 65				
Year of birth	1972	1971	1972	1971
men	24.26	24.18	24.26	24.18
women	26.29	26.22	26.29	26.22
Year of birth	1952	1951	1952	1951
men	22.38	22.26	22.38	22.26
women	24.43	24.32	24.43	24.32

Sensitivity analysis of significant actuarial assumptions

The following sensitivity analysis for the significant actuarial assumptions, on which calculations are based, shows how the cash value of pension obligations would change on the balance sheet date on account of a possible change in the actuarial assumptions. Only the listed assumption changes, all other assumptions remain unchanged.

	Pension plans			
	31.12.2017		31.12.2016	
in CHF thousands	+ 0.25 %	- 0.25 %	+ 0.25 %	- 0.25 %
Discount rate	−23'292	25'044	−23'242	25'009
Salary increase	2'236	−2'178	2'132	−2'076
Interest credit rate	5'448	−5'314	5'369	−5'235

in CHF thousands	+ 1 year	- 1 year	+ 1 year	- 1 year
Life expectancy	13'664	−13'861	13'726	−13'923

Related party transactions

42 Related parties

The LLB Group is controlled by the Principality of Liechtenstein, which holds 57.5 percent of the registerd shares of Liechtensteinische Landesbank AG, Vaduz. At the end of the year under report, LLB held 6.2 percent of its own shares and 0.2 percent were held by members of the Board of Directors and the Board of Management. The remaining registered shares are owned by the general public.

The related parties of the LLB Group comprise the Principality of Liechtenstein, associated companies, members of the Board of Directors and the Group Executive Management, as well as their close family members and enterprises which are controlled by these individuals through their majority shareholding, or their role as chairman and / or CEO in these companies, as well as their own pension funds.

Within the scope of its business activity, the LLB Group also conducts banking transactions with related parties. These transactions mainly involve loans, investments and services. The volumes of these transactions, the holdings and corresponding income and expenses are shown below.

See "Scope of consolidation" on page 177 for a detailed list of the parent / subsidiary relationships of the LLB Group.

Compensation of key management personnel

	Fixed compensation *		Variable compensation		Contribution to benefit plans and other social contributions		Share-based payments		Entitlements		Total	
in CHF thousands	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Compensations												
Members of the Board of Directors **	772	764	0	0	119	107	0	0	170	170	1'061	1'041
Members of the Board of Management ***	3'055	3'120	842	1'131	1'046	1'020	0	0	842	1'131	5'785	6'402

* Fixed compensation fee, meeting allowances.
** The Board of Directors comprises seven members.
*** The Board of Management comprises six members.

Loans of key management personnel

	Fixed mortgages		Variable mortgages		Total	
in CHF thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Members of the Board of Directors						
Georg Wohlwend, Chairman since 13.05.2017	0	0	0	0	0	0
Hans-Werner Gassner, Chairman until 12.05.2017	0	0	0	0	0	0
Markus Foser, Vice Chairman	300	300	700	700	1'000	1'000
Markus Büchel, Member	1'285	1'291	0	0	1'285	1'291
Patrizia Holenstein, Member	0	0	0	0	0	0
Urs Leinhäuser, Member	0	0	0	0	0	0
Gabriela Nagel-Jungo, Member	400	400	0	0	400	400
Roland Oehri, Member	0	0	0	0	0	0
Related parties	553	1'075	350	350	903	1'425
Total	**2'539**	**3'066**	**1'050**	**1'050**	**3'589**	**4'116**
Members of the Board of Management						
Roland Matt, CEO	1'005	1'005	0	0	1'005	1'005
Other members of the Board of Management	2'810	2'810	0	0	2'810	2'810
Related parties	0	0	0	0	0	0
Total	**3'815**	**3'815**	**0**	**0**	**3'815**	**3'815**

At 31 December 2017, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 1 and 95 months (previous year: between 13 and 107 months) at standard market client interest rates of 1.10 to 1.65 percent p.a. (previous year: 1.10 to 1.65 %). The maturities of mortgages at standard market conditions with variable interest rates ranged between 2 and 23 months (previous year: between 14 and 35 months).

At 31 December 2017, the maturities of the fixed mortgages for the members of the Board of Management ranged between 10 and 90 months (previous year: between 22 and 102 months) at interest rates of 0.4 to 1.88 percent p.a. (previous year: 0.4 to 1.88 %).

In 2017, no new loans were granted. The fair value of cover for new loans granted in the previous year amounted to CHF thousands 1'577.

Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1'000 (previous year: CHF thousands 1'000) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate. Other loans to the Board of Management amounted to CHF thousands 246 (previous year: CHF thousands 246).

No allowances for loans to management were necessary. LLB granted third parties guarantees amounting to CHF thousands 168 (previous year: CHF thousands 168) for management and related parties.

Transactions with management and related parties

in CHF thousands	2017	2016	+ / – %
Loans			
As at 1 January	7'931	7'639	3.8
Loans issued	0	700	–100.0
Loan repayments	–528	–408	29.3
As at 31 December	**7'403**	**7'931**	**–6.7**
Deposits			
As at 1 January	5'370	4'673	14.9
Change	–49	697	
As at 31 December	**5'321**	**5'370**	**–0.9**
Income and expenses			
Interest income	103	112	–8.3
Interest expenses	–3	–2	31.4
Other income *	25	18	39.4
Other expenses **	–11	–4	169.5
Total	**114**	**124**	**–7.7**

* Mainly net fee and commission income.
** Services in connection with consultation.

Transactions with own pension funds

in CHF thousands	2017	2016	+ / – %
Loans			
As at 1 January	342	765	–55.3
Change	25	–423	
As at 31 December	**367**	**342**	**7.2**
Deposits			
As at 1 January	17'597	7'812	125.3
Change	9'838	9'785	0.5
As at 31 December	**27'435**	**17'597**	**55.9**
Income and expenses			
Interest income	0	0	
Interest expenses	–21	–8	168.6
Other income *	682	641	6.4
Other expenses	0	2	–100.0
Total	**660**	**635**	**4.0**

* Mainly net fee and commission income.

No guarantees have been granted by the LLB Group for third parties on behalf of own pension funds.

Transactions with associated companies

in CHF thousands	2017	2016	+ / – %
Loans			
As at 1 January	0	0	
Change	0	0	
As at 31 December	**0**	**0**	
Deposits			
As at 1 January	742	546	35.9
Change	21'056	196	
As at 31 December	**21'798**	**742**	
Income and expenses			
Other income	41	1	
Total	**41**	**1**	

No guarantees were granted by the LLB Group for third parties for associated companies.

Scope of consolidation

Company	Registered office	Business activity	Currency	Capital Stock	Equity interest (in percent) IFRS	Legal
Fully consolidated companies						
Bank Linth LLB AG *	Uznach (CH)	Bank	CHF	16'108'060	74.8	74.2
Liechtensteinische Landesbank AG	Vaduz (FL)	Bank	CHF	154'000'000	100.0	100.0
Liechtensteinische Landesbank (Österreich) AG	Vienna (AT)	Bank	EUR	2'000'000	100.0	100.0
LLB Asset Management AG	Vaduz (FL)	Asset management company	CHF	1'000'000	100.0	100.0
LLB Berufliche Vorsorge AG	Lachen (CH)	Staff welfare scheme	CHF	500'000	100.0	100.0
LLB Beteiligungen AG	Uznach (CH)	Investment company	CHF	100'000	100.0	100.0
LLB Fund Services AG	Vaduz (FL)	Fund management company	CHF	2'000'000	100.0	100.0
LLB Holding (Schweiz) AG	Erlenbach (CH)	Holding company	CHF	250'000	100.0	100.0
LLB Invest AGmvK	Vaduz (FL)	Investment company	CHF	65'000	100.0	100.0
LLB Linth Holding AG	Uznach (CH)	Holding company	CHF	95'328'000	100.0	100.0
LLB Qualified Investors AGmvK	Vaduz (FL)	Investment company	CHF	50'000	100.0	100.0
LLB Services (Schweiz) AG	Erlenbach (CH)	Service company	CHF	100'000	100.0	100.0
LLB Verwaltung (Schweiz) AG	Erlenbach (CH)	Management company	CHF	100'000'000	100.0	100.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Vaduz (FL)	Charitable foundation	CHF	30'000	100.0	100.0
Associated companies and joint venture						
Data Info Services AG	Vaduz (FL)	Service Company	CHF	50'000	50.0	50.0
Companies fully consolidated for the first time						
None						
Companies removed from the scope of consolidation						
None						
Changes in company names during 2017						
None						

* As at 31 December 2017, the LLB Group held 74.2 percent of the share capital and votes of Bank Linth LLB AG. Bank Linth LLB AG held 4'985 treasury shares as at 31 December 2017. This increased the LLB Group's participation in Bank Linth LLB AG and deviated from the legal group participation by the said number of own shares.

In the year under report there were no disposals or losses of control of ownership interests. As at 31 December 2017 and as at 31 December 2016, there were no major restrictions in respect of the possibility to access assets of the Group companies or to appropriate them. As at 31 December 2017 and as at 31 December 2016, there were no participations in consolidated structured companies.

Risk management

Principles of risk management

One of the core competences of a financial institute is to consciously accept risks and manage them profitably. In its risk policy, the LLB Group defines qualitative and quantitative standards of risk responsibility, risk management and risk control. Furthermore, the organisational and methodical parameters for the identification, measurement, control and monitoring of risks are specified. The proactive management of risk is an integral part of corporate policy and safeguards the LLB Group's ability to bear and accept risk.

Organisation and responsibilities

Group Board of Directors
The Board of Directors of the LLB Group is responsible for stipulating risk management principles, as well as for specifying responsibilities and procedures for approving business transactions entailing risk. In fulfilling its tasks and duties, the Group Board of Directors is supported by the Group Risk Committee.

Group Executive Board
The Group Executive Board is responsible for the overall management of risk readiness within the parameters defined by the Group Board of Directors and for the implementation of the risk management processes. It is supported in this task by various risk committees.

Group Credit & Risk Management
Group Credit & Risk Management identifies, assesses, monitors and reports on the principal risk exposure of the LLB Group and is functionally and organisationally independent of the operative units. It supports the Group Executive Board in the overall management of risk exposure.

Risk categories

The LLB Group is exposed to various types of risks. It differentiates between the following risk categories:

Market risk
The risk of losses arises from unfavourable changes in interest rates, exchange rates, security prices and other relevant market parameters.

Liquidity and refinancing risk
Represents the risk of not being able to fulfil payment obligations on time or not being able to obtain refinancing funds on the market at a reasonable price to fulfil current or future payment liabilities.

Credit risk
Credit or counterparty risk includes the danger that a client or a counterparty cannot or cannot completely fulfil their obligations vis à vis the LLB Group or an individual group company. This can result in a financial loss for the LLB Group.

Operational risk
Is the danger of losses due to the unsuitability or failure of internal procedures, people or systems, or as a result of external events.

Strategic risk
Arises as a result of decisions taken by the Group Executive Board, which have a negative influence on the survival, development ability or independence of the LLB Group.

Reputation risk
If risks are not recognised, reasonably controlled and monitored, this can lead not only to substantial financial losses, but also to damage to the group's reputation.

Risk categories

Risk management process

Risk management process

The implementation of an efficient risk management process is essential to enable risks to be identified, assessed, controlled and monitored, and should create a culture of risk awareness at all levels of the LLB Group. The Group Board of Directors specifies the risk strategy, which provides the operative units with a framework for the treatment of risk exposure. Depending on the type of risk, not only the stipulation of upper limits for losses may be required, but also a detailed set of regulations which stipulate which risks may be accepted under what conditions, and when measures to control risks are to be implemented.

The diagram risk management process shows the control loop of the LLB Group's risk management process.

1 Market risks

Market risk is the risk that arises from changes in interest rates, exchange rates and security prices in the financial and capital markets. A differentiation is made between market risks in the trading book and market risks in the banking book. The potential for losses exists primarily in the impairment of the value of an asset or the increase in the value of liabilities (market value perspective) as well as in secondary capacity in the diminution of current earnings or an increase in current expenditures (earnings perspective).

1.1 Market risk management

The LLB Group has in place a differentiated risk management and risk control system for market risks. The market risk control process comprises a sophisticated framework of rules involving the identification and the uniform valuation of market risk-relevant data as well as the control, monitoring and reporting of market risks.

Trading book

The trading book contains own positions in financial instruments which are held for short-term further sale or repurchase. These activities are closely associated with the needs of our clients for capital market products and are regarded as being supporting activities for our core business.

The LLB Group conducts relatively small scale trading book activities in accordance with Article 94 (1) of the Capital Requirements Regulation (CRR). A limits system is in operation to ensure compliance and is monitored by Group Risk Management. On account of the materiality, the trading book is no longer explained in detail.

Banking book

In general, the holdings in the banking book are employed to pursue long-term investment goals. These holdings include assets, liabilities, and off-balance sheet positions, which are the result, on the one hand, of classical banking business and, on the other, are held to earn revenue over their life.

Market risks with the banking book mainly involve interest rate fluctuation risk, exchange rate risk and equity price risk.

Exchange rate risk

This relates to the risks arising in connection with the uncertainties regarding future exchange rate trends. The calculation of these risks takes into consideration all the positions entered into by the bank.

Interest rate fluctuation risk

This is regarded as the adverse effects of changes in market interest rates on capital resources or current earnings. The different interest maturity periods of claims and liabilities from balance sheet transactions and derivatives represent the most important basis.

Equity price risk

This is understood to be the risk of losses due to adverse changes in the market prices of equities.

1.2 Valuation of market risks

Sensitivity analysis
In sensitivity analysis a risk factor is altered. Subsequently, the effects of the alteration of the risk factor on the portfolio concerned are estimated.

Value-at-risk
The value-at-risk concept measures the potential loss under normal market conditions over a given time interval.

Scenario analysis
While the value-at-risk concept supplies an indication of possible losses under normal market conditions, it cannot provide information about potential losses under extreme conditions. The aim of the scenario analyses of the LLB Group is to simulate the effects of normal and stress scenarios.

1.3 Management of market risks

Within the specified limit parameters, the individual group companies are at liberty to manage their interest rate risks as they wish. Interest rate swaps are employed mainly to control interest rate risks. Risks are restricted by means of value-at–risk models and sensitivity limits.

In client business, currency risks are basically controlled by making investments or obtaining refinancing in matching currencies. The residual currency risk is restricted by means of sensitivity limits.

Investments in equities are limited by the imposition of nominal limits.

1.4 Monitoring and reporting of market risks

Group Credit & Risk Management monitors the observance of market risk limits and is also responsible for reporting market risks.

1.5 Sensitivities by risk categories

Sensitivities
Currency sensitivity affects both interest rate sensitive and non-interest rate sensitive instruments. The sensitivity of instruments in foreign currencies is determined by multiplying the CHF market value by the assumed exchange rate fluctuation of + / – 10 percent.

Interest rate sensitivity measures the market change on interest-rate-sensitive instruments for the LLB Group caused by a linear interest rate adjustment of + / – 100 basis points.

The equity price risks are measured assuming a price fluctuation of + / – 10 percent on the equity market.

Effects on group net profit and equity

Exchange rate risk
The price gains resulting from the valuation of transactions and balances are booked to profit and loss. The price gains resulting from the transfer of the functional currency into the reporting currency are booked under other comprehensive income without affecting profit and loss.

Interest rate fluctuation risk
The LLB Group recognises client loans in the balance sheet at amortised cost. This means that a change in the interest rate does not cause any change in the recognised amount and therefore to no significant recognition affecting profit and loss of the effects of interest rate fluctuation. However, fluctuations in interest rates can lead to risks because the LLB Group largely finances long-term loans with client assets. Within the scope of financial risk management, these interest rate fluctuation risks in the balance sheet business of the LLB Group are hedged mainly by means of interest rate swaps. If the IFRS hedge accounting criteria for hedging instruments (interest rate swaps) and underlying transactions (loans) are met, the hedged part of the loans to clients is recognised in the balance sheet at fair value. Further information regarding recognition and measurement is provided in Point 2.8 Derivative financial instruments and hedge accounting on page 133.

At 31 December 2017, mortgage loans stood at CHF 10'555 million. The exchange rate risks applying to this portfolio are hedged at 12.8 percent through interest rate swaps.

Equity price risk
The valuation is carried out at current market prices. The equity price risk resulting from the valuation at current market prices is reflected in the income statement and in other comprehensive income.

Sensitivities

in CHF thousands	31.12.2017 Sensitivity	31.12.2016 Sensitivity
Currency risk	**8'342**	**10'581**
of which affecting net income	3'462	6'505
of which not affecting net income	4'880	4'076
Interest rate risk	**61'046**	**52'598**
of which affecting net income	17'111	20'716
of which not affecting net income	43'935	31'882
Equity price risk *	**26'265**	**38'556**
of which affecting net income	26'265	29'315
of which not affecting net income	0	9'241

* Corresponds to a 10 percent change in equity instruments (see Note 16).

Exchange rate risk by currency

in CHF thousands	31.12.2017 Sensitivity	31.12.2016 Sensitivity
Currency risk	**8'342**	**10'581**
of which USD	40	856
of which EUR	7'865	8'593
of which others	437	1'131

1.6 Currency risks

Balance sheet by currency as at 31 December 2016

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	3'362'665	527	87'091	443	3'450'726
Due from banks	350'834	1'042'206	1'236'917	484'904	3'114'861
Loans	10'618'047	568'203	274'832	77'794	11'538'876
Trading portfolio assets	3'612	164	5	0	3'781
Derivative financial instruments	80'776	462	15	1'354	82'607
Financial investments at fair value	966'071	323'351	145'001	4'195	1'438'618
Investment in joint venture	47	0	0	0	47
Property and equipment	124'409	0	561	0	124'970
Investment property	16'018	0	0	0	16'018
Goodwill and other intangible assets	118'403	0	29	0	118'432
Current tax assets	1'205	0	0	0	1'205
Deferred tax assets	18'809	0	0	0	18'809
Accrued income and prepaid expenses	23'402	4'663	4'223	279	32'567
Non-current assets held for sale	845	0	0	0	845
Other assets	3'152	12	267	12'336	15'767
Total assets reported in the balance sheet	**15'688'295**	**1'939'588**	**1'748'941**	**581'304**	**19'958'129**
Delivery claims from forex spot, forex futures and forex options transactions	2'418'568	3'023'018	2'292'267	909'190	8'643'043
Total assets	**18'106'863**	**4'962'606**	**4'041'208**	**1'490'494**	**28'601'172**
Liabilities and equity					
Due to banks	515'203	11'970	70'724	25'035	622'932
Due to customers	10'608'453	2'595'748	2'062'784	593'480	15'860'465
Derivative financial instruments	161'208	462	15	291	161'976
Debt issued	1'218'479	0	9'556	0	1'228'035
Current tax liabilities	10'398	0	0	0	10'398
Deferred tax liabilities	13'745	0	0	0	13'745
Accrued expenses and deferred income	18'127	5'360	2'548	192	26'227
Provisions	51'071	0	0	0	51'071
Other liabilities	164'105	2'816	8'937	1'047	176'905
Share capital	154'000	0	0	0	154'000
Share premium	24'968	0	0	0	24'968
Treasury shares	−167'045	0	0	0	−167'045
Retained earnings	1'758'816	0	0	0	1'758'816
Other reserves	−74'511	0	0	0	−74'511
Non-controlling interests	110'146	0	0	0	110'146
Liabilities and equity reported in the balance sheet	**14'567'164**	**2'616'356**	**2'154'564**	**620'045**	**19'958'129**
Delivery liabilities from forex spot, forex futures and forex options transactions	3'644'920	2'337'690	1'800'714	859'135	8'642'459
Total liabilities and equity	**18'212'084**	**4'954'046**	**3'955'278**	**1'479'180**	**28'600'587**
Net position per currency	**−105'221**	**8'561**	**85'930**	**11'315**	**585**

Balance sheet by currency as at 31 December 2017

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	3'972'410	774	156'109	430	4'129'723
Due from banks	160'567	770'260	517'021	492'585	1'940'433
Loans	11'187'822	419'290	409'493	67'361	12'083'966
Trading portfolio assets	57	1	4	0	62
Derivative financial instruments	58'139	155	0	446	58'740
Financial investments at fair value	847'883	362'089	250'101	0	1'460'073
Investment in joint venture	33	0	0	0	33
Property and equipment	124'370	0	707	0	125'077
Investment property	15'000	0	0	0	15'000
Goodwill and other intangible assets	112'755	0	141	0	112'896
Current tax assets	0	0	890	0	890
Deferred tax assets	11'347	0	1'295	0	12'642
Accrued income and prepaid expenses	28'487	4'122	6'258	528	39'395
Non-current assets held for sale	6'734	0	0	0	6'734
Other assets	2'099	30	35	29'650	31'814
Total assets reported in the balance sheet	**16'527'703**	**1'556'721**	**1'342'054**	**591'000**	**20'017'478**
Delivery claims from forex spot, forex futures and forex options transactions	2'923'511	3'430'084	4'051'686	904'956	11'310'237
Total assets	**19'451'214**	**4'986'805**	**5'393'740**	**1'495'956**	**31'327'715**
Liabilities and equity					
Due to banks	705'480	65'559	134'863	37'414	943'316
Due to customers	10'459'558	2'411'887	2'200'361	580'352	15'652'158
Derivative financial instruments	116'849	155	0	445	117'449
Debt issued	1'161'240	0	7'787	0	1'169'027
Current tax liabilities	16'876	0	202	0	17'078
Deferred tax liabilities	14'472	0	0	0	14'472
Accrued expenses and deferred income	19'382	6'309	3'628	930	30'250
Provisions	28'128	0	0	0	28'128
Other liabilities	148'826	2'419	8'843	2'531	162'619
Share capital	154'000	0	0	0	154'000
Share premium	23'509	0	0	0	23'509
Treasury shares	−163'886	0	0	0	−163'886
Retained earnings	1'815'454	0	0	0	1'815'454
Other reserves	−62'371	0	0	0	−62'371
Non-controlling interests	116'276	0	0	0	116'276
Liabilities and equity reported in the balance sheet	**14'553'794**	**2'486'329**	**2'355'684**	**621'672**	**20'017'478**
Delivery liabilities from forex spot, forex futures and forex options transactions	4'983'784	2'500'075	2'959'401	869'916	11'313'176
Total liabilities and equity	**19'537'578**	**4'986'404**	**5'315'086**	**1'491'588**	**31'330'656**
Net position per currency	**−86'364**	**401**	**78'654**	**4'368**	**−2'940**

1.7 Interest rate repricing balance sheet

Interest commitments of financial assets and liabilities (nominal)

in CHF thousands	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31.12.2016						
Financial assets						
Cash and balances with central banks	3'450'726	0	0	0	0	3'450'726
Due from banks	1'490'128	412'424	1'112'328	0	0	3'014'881
Loans	1'803'964	2'122'006	1'344'164	4'599'144	1'632'364	11'501'642
Trading portfolio assets	0	0	0	1'368	2'530	3'898
Financial investments	19'490	42'397	140'269	738'151	76'176	1'016'483
Total financial assets	**6'764'308**	**2'576'827**	**2'596'762**	**5'338'662**	**1'711'070**	**18'987'630**
Derivative financial instruments	120'000	416'000	810'000	15'000	0	1'361'000
Total	**6'884'308**	**2'992'827**	**3'406'762**	**5'353'662**	**1'711'070**	**20'348'630**
Financial liabilities						
Due to banks	267'217	35'000	240'000	80'000	0	622'217
Due to customers	7'126'131	1'325'260	2'854'055	4'417'172	30'029	15'752'647
Debt issued	6'980	16'478	198'571	606'041	395'890	1'223'960
Total financial liabilities	**7'400'328**	**1'376'738**	**3'292'627**	**5'103'212**	**425'919**	**17'598'824**
Derivative financial instruments	0	15'000	170'000	556'000	620'000	1'361'000
Total	**7'400'328**	**1'391'738**	**3'462'627**	**5'659'212**	**1'045'919**	**18'959'824**
Interest rate repricing exposure	**−516'020**	**1'601'089**	**−55'865**	**−305'550**	**665'151**	**1'388'806**
31.12.2017						
Financial assets						
Cash and balances with central banks	4'047'118	0	0	0	0	4'047'118
Due from banks	1'221'406	292'063	352'212	0	0	1'865'681
Loans	1'928'814	2'178'679	1'412'059	4'932'182	1'608'292	12'060'027
Trading portfolio assets	0	0	0	0	50	50
Financial investments	30'045	57'355	272'902	753'211	56'824	1'170'337
Total financial assets	**7'227'383**	**2'528'098**	**2'037'174**	**5'685'393**	**1'665'166**	**19'143'213**
Derivative financial instruments	80'000	466'000	750'000	55'000	0	1'351'000
Total	**7'307'383**	**2'994'098**	**2'787'174**	**5'740'393**	**1'665'166**	**20'494'213**
Financial liabilities						
Due to banks	507'316	90'000	286'000	60'000	0	943'316
Due to customers	6'744'759	1'362'895	2'958'717	4'460'008	20'000	15'546'378
Debt issued	8'350	28'212	136'036	606'346	390'083	1'169'027
Total financial liabilities	**7'260'424**	**1'481'107**	**3'380'753**	**5'126'354**	**410'083**	**17'658'721**
Derivative financial instruments	0	35'000	131'000	730'000	455'000	1'351'000
Total	**7'260'424**	**1'516'107**	**3'511'753**	**5'856'354**	**865'083**	**19'009'721**
Interest rate repricing exposure	**46'959**	**1'477'991**	**−724'580**	**−115'961**	**800'083**	**1'484'492**

In the fixed-interest-rate repricing balance sheet, asset and liability surpluses from fixed-interest rate positions as well as from interest-rate-sensitive derivative positions in the balance sheet are calculated and broken down into maturity ranges (cycle times). The positions with an unspecified duration of interest rate repricing are allocated to the corresponding maturity ranges (cycle times) on the basis of a replication.

2 Liquidity and refinancing risk

Liquidity risk is defined as a situation where present and future payment obligations cannot be fully met or met on time, or in the event of a liquidity crisis, refinancing funds may only be available at increased market rates (refinancing costs), or they can only be made liquid at markdowns to market rates (market liquidity risk).

2.1 Liquidity risk management

Processes and organisational structures ensure that liquidity risks are identified, uniformly measured, controlled and monitored, as well as being included in risk reporting. The liquidity risk regulations, which include the LLB Group's risk tolerance criteria, are regularly reviewed by the Group Executive Board and approved by the Group Board of Directors. The liquidity risk limits to be observed by the LLB Group are stipulated in the regulations.

The objectives of the LLB Group's liquidity risk management include the following points:

- the ability to meet financial obligations at all times
- compliance with regulatory provisions
- optimisation of the refinancing structure
- optimisation of payment streams within the LLB Group.

2.2 Valuation of liquidity risks

In our liquidity risk management concept, scenario analysis plays a central role. This includes the valuation of the liquidity of assets, i.e. the liquidity characteristics of our asset holdings in various stress scenarios.

2.3 Contingency planning

The LLB Group's liquidity risk management encompasses a contingency plan. The contingency plan includes an overview of emergency measures, sources of alternative financing and governance in stress situations.

2.4 Monitoring and reporting of liquidity risks

Group Credit & Risk Management monitors compliance with liquidity risk limits and is responsible for reporting on liquidity risks.

The following tables show the maturities according to contractual periods, separated according to derivative and non-derivative financial instruments as well as off-balance sheet transactions. The values of derivative financial instruments represent replacement values. All other values correspond to nominal values, i.e. possible interest and coupon payments are included.

Maturity structure of derivative financial instruments

	Term to maturity within 3 months		Term to maturity 3 to 12 months		Term to maturity 1 to 5 years		Term to maturity after 5 years		Total	
in CHF thousands	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*	PRV*	NRV*
31.12.2016										
Derivative financial instruments in the trading portfolio										
Interest rate contracts										
Swaps	0	0	0	3'662	0	38'286	0	36'180	0	78'128
Forward contracts	21	364	8	696	0	0	0	0	30	1'060
Foreign exchange contracts										
Forward contracts	60'524	60'500	15'834	15'153	325	316	0	0	76'683	75'969
Over the counter (OTC) contracts	402	402	2'613	2'613	0	0	0	0	3'015	3'015
Precious metals contracts										
Forward contracts	226	251	0	0	0	0	0	0	226	251
Over the counter (OTC) contracts	0	0	6	6	0	0	0	0	6	6
Equity instruments / index contracts										
Over the counter (OTC) contracts	1'316	1'316	0	0	54	54	0	0	1'369	1'369
Equities										
Forward contracts	0	0	0	0	0	0	0	0	0	0
Total derivative financial instruments in the trading portfolio	**62'488**	**62'832**	**18'462**	**22'130**	**379**	**38'656**	**0**	**36'180**	**81'329**	**159'798**
Derivative financial instruments for hedging purposes										
Interest rate contracts										
Swaps (fair value hedge)	0	0	0	119	0	68	1'279	1'990	1'279	2'178
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**119**	**0**	**68**	**1'279**	**1'990**	**1'279**	**2'178**
Derivative financial instruments	**62'488**	**62'832**	**18'462**	**22'249**	**379**	**38'724**	**1'279**	**38'171**	**82'607**	**161'976**

* PRV: Positive replacement values; NRV: Negative replacement values

in CHF thousands	Term to maturity within 3 months PRV*	NRV*	Term to maturity 3 to 12 months PRV*	NRV*	Term to maturity 1 to 5 years PRV*	NRV*	Term to maturity after 5 years PRV*	NRV*	Total PRV*	NRV*
31.12.2017										
Derivative financial instruments in the trading portfolio										
Interest rate contracts										
Swaps	0	438	0	2'440	13	40'218	0	12'207	13	55'302
Forward contracts	9	87	0	59	2	0	0	0	11	146
Foreign exchange contracts										
Forward contracts	46'014	49'330	7'426	7'052	714	701	0	0	54'154	57'082
Over the counter (OTC) contracts	282	282	2'365	2'365	1	1	0	0	2'649	2'649
Precious metals contracts										
Forward contracts	0	0	5	5	0	0	0	0	5	5
Over the counter (OTC) contracts	0	0	25	25	0	0	0	0	25	25
Equity instruments / index contracts										
Over the counter (OTC) contracts	390	390	0	0	56	56	0	0	445	445
Equities										
Forward contracts	0	0	0	0	0	0	0	0	0	0
Total derivative financial instruments in the trading portfolio	**46'695**	**50'526**	**9'821**	**11'945**	**785**	**40'975**	**0**	**12'207**	**57'302**	**115'653**
Derivative financial instruments for hedging purposes										
Interest rate contracts										
Swaps (fair value hedge)	0	0	0	0	0	94	1'438	1'701	1'438	1'795
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**0**	**0**	**94**	**1'438**	**1'701**	**1'438**	**1'795**
Derivative financial instruments	**46'695**	**50'526**	**9'821**	**11'945**	**785**	**41'069**	**1'438**	**13'908**	**58'740**	**117'448**

* PRV: Positive replacement values; NRV: Negative replacement values

Maturity structure of non-derivative financial instruments and off-balance sheet transactions

in CHF thousands	Demand deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2016							
Financial assets							
Cash and balances with central banks	3'450'726	0	0	0	0	0	3'450'726
Due from banks	411'568	0	1'494'498	1'117'179	0	0	3'023'244
Loans	211'975	271'140	2'006'931	1'816'899	6'010'938	1'690'004	12'007'887
Trading portfolio assets	0	0	1	12	1'418	2'574	4'006
Financial investments at fair value	0	0	39'040	150'140	783'578	77'136	1'049'893
Accrued income and prepaid expenses	0	0	32'568	0	0	0	32'568
Total financial assets	**4'074'268**	**271'140**	**3'573'038**	**3'084'229**	**6'795'934**	**1'769'714**	**19'568'324**
Financial liabilities							
Due to banks	109'314	0	192'805	239'817	80'017	0	621'953
Due to customers	9'662'008	4'814'828	590'059	562'192	105'865	30'309	15'765'261
Debt issued	0	0	27'253	208'283	639'049	403'128	1'277'713
Accrued expenses and deferred income	0	0	26'228	0	0	0	26'228
Total financial liabilities	**9'771'323**	**4'814'828**	**836'345**	**1'010'292**	**824'931**	**433'437**	**17'691'155**
Net liquidity exposure	**–5'697'054**	**–4'543'688**	**2'736'693**	**2'073'937**	**5'971'004**	**1'336'277**	**1'877'169**
Off-balance-sheet transactions	**326'748**	**0**	**0**	**0**	**0**	**0**	**326'748**
Contingent liabilities	62'839	0	0	0	0	0	62'839
Irrevocable commitments	254'805	0	0	0	0	0	254'805
Deposit and call liabilities	9'104	0	0	0	0	0	9'104

in CHF thousands	Demand deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2017							
Financial assets							
Cash and balances with central banks	4'047'118	0	0	0	0	0	4'047'118
Due from banks	619'445	0	897'614	355'689	0	0	1'872'749
Loans	173'600	230'840	1'997'778	1'847'052	6'620'538	1'674'715	12'544'523
Trading portfolio assets	0	0	0	0	1	51	53
Financial investments at fair value	0	0	59'767	282'136	794'964	65'635	1'202'502
Accrued income and prepaid expenses	0	0	39'395	0	0	0	39'395
Total financial assets	**4'840'163**	**230'840**	**2'994'555**	**2'484'877**	**7'415'503**	**1'740'401**	**19'706'339**
Financial liabilities							
Due to banks	201'995	0	395'068	285'664	60'092	0	942'819
Due to customers	9'832'032	4'383'451	506'416	666'973	147'621	20'145	15'556'638
Debt issued	0	0	40'246	144'432	632'340	395'637	1'212'656
Accrued expenses and deferred income	0	0	30'250	0	0	0	30'250
Total financial liabilities	**10'034'027**	**4'383'451**	**971'980**	**1'097'070**	**840'052**	**415'782**	**17'742'362**
Net liquidity exposure	**–5'193'863**	**–4'152'611**	**2'022'575**	**1'387'807**	**6'575'451**	**1'324'619**	**1'963'978**
Off-balance-sheet transactions	**311'462**	**0**	**0**	**0**	**0**	**0**	**311'462**
Contingent liabilities	54'598	0	0	0	0	0	54'598
Irrevocable commitments	247'724	0	0	0	0	0	247'724
Deposit and call liabilities	9'141	0	0	0	0	0	9'141

3 Credit risk

Within the scope of credit risk management, vital importance is attached to the avoidance of credit risks and the early identification of default risks. In addition to systematic risk / return management at the individual loan level, the LLB Group proactively manages its credit risks at the credit portfolio level. The primary objective is to reduce the overall level of risk through diversification and a stabilisation of expected returns.

3.1 Credit risk management

Processes and organisational structures ensure that credit risks are identified, uniformly evaluated, controlled, monitored and included in risk reporting.

Basically, the LLB Group conducts its lending business for private and corporate clients on a secured basis. The process of granting a loan is based on a thorough evaluation of the borrower's creditworthiness, the possible impairment and the legal existence of collateral, as well as risk classification in a rating process performed by experienced credit specialists. The granting of loans is subject to a specified assignment of authority. A major characteristic of the credit approval process is the separation between front and back office functions.

In addition, the LLB Group conducts lending business with banks on a secured and unsecured basis, whereby individual risk limits are approved for every counterparty.

3.2 Evaluation of credit risks

The consistent evaluation of credit risks represents an essential prerequisite of successful risk management. The credit risk can be broken down into the components: probability of default, loss given default and the exposure at the time point of the default.

Probability of default
The LLB Group assesses the probability of default of individual counterparties by means of an internal rating system. The different rating procedures are adapted to suit the different characteristics of borrowers. The credit risk management ratings employed for banks and debt instruments are based on external ratings from recognised rating agencies.

The reconciliation of the internal rating with the external rating is carried out in accordance with the following master scale.

Loss given default
The loss given default is influenced by the amount of collateralisation and the costs of realising the collateral. It is expressed as a percentage of the individual commitment.

The potential loss at portfolio level is broken down as follows at the LLB Group:

Rating classes (master scale)

LLB rating	Description	External rating **
1 to 4	Investment grade	AAA, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3
5 to 8, not rated *	Standard monitoring	Ba1, Ba2, Ba3, B1, B2
9 to 10	Special monitoring	B3, Caa, Ca, C
11 to 14	Sub-standard	Default

* Non-rated loans are covered and subject to limits.
** For the securitisation of credit risks in the standard approach, the LLB Group employs solely the external ratings of the recognised rating agency Moody's (for the segments: due from banks, finance companies and securities firms, due from companies and due from international organisations).

Expected loss
Expected loss is a future-related, statistical concept that permits the LLB Group to estimate the average annual costs that could be incurred if positions in the current portfolio are classified as at risk. It is calculated on the basis of the default probability of a counterparty, the expected credit commitment made to this counterparty at the time of the default, and the magnitude of the loss given default.

Value-at-risk concept
The value-at-risk approach aims at computing the size of fluctuations in credit losses incurred by means of a statistical model and to show the change in the risk status of the credit portfolio.

Scenario analysis
The modelling of external credit losses is performed on the basis of stress scenarios, which enable us to evaluate the effects of fluctuations in the default rates of the assets pledged as collateral taking into consideration the existing risk concentration in every portfolio.

3.3 Controlling credit risk

Credit risk management has the task of actively influencing the risk situation of the LLB Group. This is carried out using a limits system, risk-adjusted pricing, through the possibility of using risk hedging instruments and the specific repayment of credit commitments. Risk management is conducted both at the individual loan and at the portfolio level.

Risk restriction
The LLB Group has in place a comprehensive limits system to restrict credit risk exposure. In addition to the limitation of individual credit risks, to prevent risk concentrations, the LLB Group assigns limits for regions and sectors.

Risk mitigation
To mitigate credit risk exposure, the LLB Group takes security mainly in the form of pledged assets and financial collateral. In the case of financial collateral in the form of marketable securities, we determine their collateral value by applying a schedule of reductions, the size of which is based on the quality, liquidity, volatility, and complexity of the separate instruments.

Derivatives
The LLB Group may employ credit derivatives to reduce risks. This possibility has not been utilised in recent years.

3.4 Monitoring and reporting of credit risks

The organisational structure of the LLB Group ensures that departments which cause the risks and those that evaluate, manage and monitor them are completely separated.

Individual credit risks are monitored by means of a comprehensive limits system. Infringements are immediately reported to the senior officer responsible.

3.5 Risk provisioning

Overdue claims
A claim is deemed to be overdue if a substantial liability from a borrower to the bank is outstanding. The overdraft begins on the date when a borrower exceeds an approved limit, has not paid interest or amortisation, or has utilised an unauthorised credit facility.

Specific valuation allowances are made for claims that are overdue by more than 90 days.

Default-endangered claims
Claims are regarded as being in danger of default if, on the basis of the client's creditworthiness, a loan default can no longer be excluded in the near future.

Specific value allowances
Each impaired claim is individually assessed and the restructuring strategy as well as the estimate of future recoverable amounts are determined. An individual value allowance is allocated on the basis of these criteria.

3.6 Country risks

A country risk arises if specific political or economic conditions in a country affect the value of a foreign position. Country risk is composed of transfer risk (e.g. restrictions on the free movement of money and capital) and other country risks (e.g. country-related liquidity, market and correlation risks).

Country risks are controlled on the basis of a limits system and are continually monitored. Ratings provided by a recognised rating agency are utilised for certain individual countries.

3.7 Due from banks and loans

	31.12.2017		31.12.2016	
in CHF thousands	Loans	Due from banks	Loans	Due from banks
Neither overdue nor value allowance made	11'814'999	1'940'433	11'297'277	3'114'861
Overdue but no value allowance made	148'206	0	98'411	0
Overdue, value allowance made (specific)	54'586	0	85'781	0
Default-stressed, value allowance made (specific)	143'620	0	164'405	0
Gross	**12'161'411**	**1'940'433**	**11'645'874**	**3'114'861**
Minus allowances (specific)	−77'445	0	−106'999	0
Net	**12'083'966**	**1'940'433**	**11'538'875**	**3'114'861**

The data presented in the table above is broken down further in the following tables.

Due from banks and loans neither overdue nor allowances made

in CHF thousands	Mortgage loans	Loans to public institutions	Miscellaneous loans	Total loans	Due from banks
31.12.2016					
Investment grade	4'187'107	1'002	1'308'453	5'496'562	1'918'105
Standard monitoring	5'267'718	81'439	81'318	5'430'475	1'196'756
Special monitoring	296'036	0	33'451	329'487	0
Sub-standard	40'582	0	171	40'753	0
Total	**9'791'443**	**82'441**	**1'423'393**	**11'297'277**	**3'114'861**
31.12.2017					
Investment grade	4'197'331	18'070	871'965	5'087'366	819'909
Standard monitoring	5'751'123	68'827	449'098	6'269'048	1'120'524
Special monitoring	370'526	0	29'449	399'975	0
Sub-standard	58'487	0	123	58'610	0
Total	**10'377'467**	**86'897**	**1'350'635**	**11'814'999**	**1'940'433**

Loans overdue but no allowances made

in CHF thousands	Mortgage loans	Loans to public institutions	Miscellaneous loans	Total loans
31.12.2016				
Overdue by up to 30 days	27'206	0	63'233	90'439
Overdue 31 to 60 days	380	0	7'234	7'614
Overdue 61 to 90 days	50	0	308	358
Total	**27'636**	**0**	**70'775**	**98'411**
31.12.2017				
Overdue by up to 30 days	32'371	2	106'846	139'219
Overdue 31 to 60 days	2'839	0	966	3'805
Overdue 61 to 90 days	2'015	0	3'166	5'181
Total	**37'225**	**2**	**110'979**	**148'206**

Loans with specific allowances

in CHF thousands	Mortgage loans	Loans to public institutions	Miscellaneous loans	Total loans	Due from banks
31.12.2016					
Overdue claims	30'361	0	55'420	85'781	0
Default-distressed claims	137'279	0	27'126	164'405	0
Fair value of cover	−137'792	0	−5'395	−143'187	0
Total specific value allowances	**29'848**	**0**	**77'151**	**106'999**	**0**
31.12.2017					
Overdue claims	26'980	0	27'606	54'586	0
Default-distressed claims	114'167	0	29'453	143'620	0
Fair value of cover	−109'241	0	−11'520	−120'761	0
Total specific value allowances	**31'906**	**0**	**45'539**	**77'445**	**0**

Newly agreed loans

Newly agreed loans are not substantial.

3.8 Overdue and default-distressed claims by geographical area

	31.12.2017			31.12.2016		
in CHF thousands	Default distressed claims	Overdue claims	Specific value allowance	Default distressed claims	Overdue claims	Specific value allowance
Liechtenstein and Switzerland	143'620	116'518	64'170	164'405	94'109	69'604
Europe excl. Liechtenstein and Switzerland	0	58'638	0	0	1'496	0
North America	0	0	0	0	1'632	0
Asia	0	12'286	665	0	49'238	562
Others	0	15'350	12'610	0	37'718	36'833
Total	**143'620**	**202'792**	**77'445**	**164'405**	**184'193**	**106'999**

3.9 Debt instruments

	31.12.2017			31.12.2016		
in CHF thousands	Trading portfolio assets	Financial investments at fair value	Total	Trading portfolio assets	Financial investments at fair value	Total
AAA	0	641'503	641'503	0	615'806	615'806
AA1 to AA3	0	295'544	295'544	99	263'547	263'646
A1 to A3	51	194'594	194'645	2'205	149'956	152'161
Lower than A3	0	49'896	49'896	957	7'303	8'260
Without a rating	0	15'888	15'888	512	16'445	16'957
Total	**51**	**1'197'425**	**1'197'476**	**3'772**	**1'053'057**	**1'056'830**

3.10 Taken-over collateral

in CHF thousands	2017 Financial investments	2017 Real estate / Properties	2017 Total	2016 Financial investments	2016 Real estate / Properties	2016 Total
As at 1 January	0	1'018	1'018	0	1'018	1'018
Additions / (Disposals)	0	1'723	1'723	0	0	0
(Value allowances) / Revaluations	0	0	0	0	0	0
As at 31 December	**0**	**2'741**	**2'741**	**0**	**1'018**	**1'018**

Taken-over collateral is disposed of again as soon as possible. It is reported under financial investments, trading portfolio assets, investment property and non-current assets held for sale, respectively.

3.11 Types of cover for due from banks and loans

The types of cover for loans to clients and due from banks are shown in the following tables.

Types of cover for loans

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Secured by properties	10'509'538	9'967'873	5.4
Other collateral	1'060'493	1'076'498	– 1.5
Unsecured	513'935	494'505	3.9
Total	**12'083'966**	**11'538'876**	**4.7**

The table shows the types of cover for loans made to customers net, i.e. after deduction of allowances for credit risks.

Types of cover for due from banks

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Secured	117'298	238'941	– 50.9
Unsecured	1'823'134	2'875'920	– 36.6
Total	**1'940'433**	**3'114'861**	**– 37.7**

There are no value allowances for due from banks.

3.12 Risk concentration

Maximal credit risk by regions without considering collateral

in CHF thousands	Liechtenstein / Switzerland	Europe excl. FL / CH	North America	Asia	Others *	Total
31.12.2016						
Credit risks from balance sheet transactions						
Due from banks	1'745'874	1'293'140	14'169	50'638	11'040	3'114'861
Loans						
Mortgage loans	9'931'047	25'242	0	0	0	9'956'289
Loans to public institutions	82'441	0	0	0	0	82'441
Miscellaneous loans	890'463	158'702	1'658	272'570	176'752	1'500'145
Trading portfolio assets						
Fixed-interest securities	1'266	2'015	0	0	491	3'772
Derivative financial instruments	52'204	25'262	88	152	4'901	82'607
Financial investments at fair value						
Fixed-interest securities	321'773	544'532	122'405	32'248	32'099	1'053'057
Total	**13'025'068**	**2'048'893**	**138'320**	**355'608**	**225'283**	**15'793'172**
Credit risks from off-balance sheet transactions						
Contingent liabilities	53'688	2'231	0	4'556	2'364	62'839
Irrevocable commitments	214'057	6'662	0	4'829	29'257	254'805
Deposit and call liabilities	9'104	0	0	0	0	9'104
Total	**276'849**	**8'893**	**0**	**9'385**	**31'621**	**326'748**
31.12.2017						
Credit risks from balance sheet transactions						
Due from banks	1'379'224	473'410	47'879	24'811	15'109	1'940'433
Loans						
Mortgage loans	10'493'172	30'156	0	0	0	10'523'328
Loans to public institutions	86'899	0	0	0	0	86'899
Miscellaneous loans	725'834	199'034	343	338'877	209'651	1'473'739
Trading portfolio assets						
Fixed-interest securities	0	51	0	0	0	51
Derivative financial instruments	39'526	18'058	0	110	1'046	58'740
Financial investments at fair value						
Fixed-interest securities	292'092	677'870	162'126	40'690	24'648	1'197'425
Total	**13'016'747**	**1'398'579**	**210'348**	**404'488**	**250'454**	**15'280'615**
Credit risks from off-balance sheet transactions						
Contingent liabilities	47'364	2'000	0	3'592	1'642	54'598
Irrevocable commitments	208'715	7'335	0	4'705	26'969	247'724
Deposit and call liabilities	9'141	0	0	0	0	9'141
Total	**265'220**	**9'335**	**0**	**8'297**	**28'611**	**311'463**

* None of the categories summarised in the position "Others" exceeds 10 percent of the total volume.

The largest credit risk for the LLB Group arises from loans made to banks and loans made to customers. In the case of loans to customers, the majority of loans are secured by mortgages, which are granted to clients having first-class creditworthiness within the scope of the LLB Group's lending policy. Thanks to the diversified nature of the collateral portfolio, containing properties in the Principality of Liechtenstein and in Switzerland, the risk of losses is reduced to a minimum. The LLB Group undertakes bank investments on both a secured and an unsecured basis. The risk of losses with loans to banks is restricted, on the one hand, through a broad distribution of risks and, on the other, by the strict minimum lending requirements applied to the counterparties.

Maximal credit risk by sectors without considering collateral

in CHF thousands	Financial services	Real estate	Private households	Others *	Total
31.12.2016					
Credit risks from balance sheet transactions					
Due from banks	3'114'861	0	0	0	3'114'861
Loans					
Mortgage loans	121'424	1'495'041	7'144'906	1'194'918	9'956'289
Loans to public institutions	0	0	0	82'441	82'441
Miscellaneous loans	240'799	34'357	530'319	694'670	1'500'145
Trading portfolio assets					
Fixed-interest securities	3	0	0	3'769	3'772
Derivative financial instruments	70'310	87	4'657	7'553	82'607
Financial investments at fair value					
Fixed-interest securities	448'910	10'294	0	593'853	1'053'057
Total	**3'996'307**	**1'539'779**	**7'679'882**	**2'577'204**	**15'793'172**
Credit risks from off-balance sheet transactions					
Contingent liabilities	6'280	3'562	10'836	42'161	62'839
Irrevocable commitments	54'101	31'978	72'275	96'451	254'805
Deposit and call liabilities	9'104	0	0	0	9'104
Total	**69'485**	**35'540**	**83'111**	**138'612**	**326'748**
31.12.2017					
Credit risks from balance sheet transactions					
Due from banks	1'940'433	0	0	0	1'940'433
Loans					
Mortgage loans	125'831	1'882'383	7'294'838	1'220'276	10'523'328
Loans to public institutions	0	0	0	86'899	86'899
Miscellaneous loans	348'783	20'389	627'393	477'174	1'473'739
Trading portfolio assets					
Fixed-interest securities	51	0	0	0	51
Derivative financial instruments	53'119	11	3'504	2'106	58'740
Financial investments at fair value					
Fixed-interest securities	161'960	0	0	1'035'465	1'197'425
Total	**2'630'177**	**1'902'783**	**7'925'735**	**2'821'920**	**15'280'615**
Credit risks from off-balance sheet transactions					
Contingent liabilities	5'775	4'289	9'220	35'314	54'598
Irrevocable commitments	51'831	30'289	73'429	92'175	247'724
Deposit and call liabilities	9'141	0	0	0	9'141
Total	**66'747**	**34'578**	**82'649**	**127'489**	**311'463**

* None of the categories summarised in the position "Others" exceeds 10 percent of the total volume.

4 Operational risk

The LLB Group defines operational risks as being the danger of losses due to the failure of internal procedures, people or IT systems or as a result of an external event. Legal risks form a part of operational risks. The LLB Group has in place an active and systematic process for managing operational risks. Policies and directives have been formulated for the identification, control and management of this risk category, which are valid for all Group companies. Potential and incurred losses from all organisational units, as well as significant external events, are recorded and evaluated promptly at the parent bank. In addition, the LLB Group collates and analyses risk ratios, e.g. from the areas of due diligence and employee transactions for own account. Ultimately, the risks are limited by means of internal rules and regulations regarding organisation and control.

5 Strategic risk

For LLB Group, a strategic risk represents the endangering of a projected business result due to the inadequate focusing of the Group on the political, economic, technological, social or ecological environment. Accordingly, these risks can arise as a result of an inadequate strategic decision-making process, unforeseeable events on the market or a deficient implementation of the selected strategies. Strategic risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

6 Reputational risk

If risks are not identified, adequately managed and monitored, this can lead not only to substantial financial losses, but also to reputational damage. The LLB Group does not regard reputational risk as an independent risk category, but rather as the danger of additional losses stemming from the categories concerned. To this extent, a reputational risk can cause and also result in losses in all risk categories, such as market or credit risks.

Reputational risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

Regulatory disclosures

1 Capital adequacy requirements (Pillar I)

The Banking Law and Banking Ordinance of the Principality of Liechtenstein form the legal basis of capital adequacy requirements, which in turn are based on the directives of the Basel Committee on Banking Supervision as adapted by the European Union.

In accordance with Basel III, the banks may choose from various approaches to calculate the capital requirements for credit, market and operational risks. The LLB Group applies the standard approach for credit risk, the basic indicator approach for operational risks, and the standard approach for market risks (trading book activities of insignificant materiality in accordance with Article 94 (1) CRR). The determination of capital requirements and tier capital is carried out on the basis of the IFRS consolidated financial statement, whereby non-realised gains are deducted from core capital.

An explanation of the divergences between the scope of companies consolidated for regulatory purposes for the calculation of capital adequacy requirements and the scope of consolidation for the consolidated financial statement of the LLB Group is provided in the disclosure report 2017.

1.1 Segmentation of credit risks

	Regulatory risk weighted									
in CHF thousands	0 %	10 %	20 %	35 %	50 %	75 %	100 %	150 %	250 %	Total
31.12.2017										
Central governments and central banks	4'140'000	0	24'296	0	5'873	0	0	0	0	4'170'169
Regional governments	0	0	128'982	0	9'835	0	0	0	0	138'817
Public sector entities	0	0	51'913	0	0	0	0	0	0	51'913
Multilateral development banks	100'650	0	0	0	0	0	0	0	0	100'650
Banks and securities firms	0	0	2'210'421	0	267'726	0	0	0	0	2'478'147
Corporates	0	0	104'084	0	60'744	0	976'377	45'295	0	1'186'500
Retail	0	0	0	0	0	278'601	596'443	0	0	875'044
Secured by real estate	0	0	8'550	7'906'146	1'705'418	0	832'266	0	0	10'452'380
In default	0	0	0	0	0	2'166	77'539	56'560	0	136'266
Equity instruments	0	0	0	0	0	0	25'520	0	63	25'582
Covered bonds	0	217'771	0	0	0	0	0	0	0	217'771
Collective investments and others	84'006	0	12'237	0	0	0	383'363	0	0	479'606
Total	**4'324'656**	**217'771**	**2'540'482**	**7'906'146**	**2'049'596**	**280'767**	**2'891'508**	**101'856**	**63**	**20'312'845**
Total previous year	3'666'921	175'030	3'170'361	7'570'622	2'437'881	265'192	2'867'099	118'361	47	20'271'513

1.2 Mitigation of credit risk

	31.12.2017				31.12.2016			
in CHF thousands	Covered by recognised financial collateral	Covered by guarantees	Other credit commitments	Total	Covered by recognised financial collateral	Covered by guarantees	Other credit commitments	Total
Balance sheet positions	0	11'099	0	11'099	0	9'148	0	9'148
Off-balance sheet positions	0	0	0	0	0	352	0	352
Derivatives	0	0	0	0	0	0	0	0
Total	**0**	**11'099**	**0**	**11'099**	**0**	**9'499**	**0**	**9'499**

1.3 Leverage Ratio (LR)

A further integral part of the Basel III package is the leverage ratio which, with its comparison of unweighted on-balance sheet and off-balance sheet risk positions, on the one hand, and equity held, on the other, attempts to prevent the danger of financial institutes becoming excessively indebted. This reference ratio stands at 3.0 percent and is currently being monitored by the supervisory authority. It is not yet legally binding. At the end of 2017, the leverage ratio of the LLB Group amounted to 8.3 percent (31.12.2016: 7.8 %).

1.4 Liquidity Coverage Ratio (LCR)

The delegated regulation (EU) 2015 / 61, which came into force in Liechtenstein in January 2016, supplements the CRR in regard to liquidity coverage criteria for banks. The regulations are to ensure that banks possess a reasonable level of liquidity in order to cover their liquidity requirements in the case of a liquidity stress scenario within 30 calendar days. As the only binding regulatory liquidity reference figure, the LCR represents an important indicator both for liquidity risk measurement as well as liquidity risk control.

At the end of 2017, a regulatory LCR lower limit of 80 percent was applicable for the LLB Group. With a value of 126.3 percent, the LLB Group's ratio was substantially higher than legally required.

2 Internal capital (Pillar II)

The financial market regulatory requirements with respect to quantitative risk management, which arise from Pillar II, are fulfilled by the LLB Group by, among other measures, the conducting of a risk-bearing capacity calculation. The objective of the risk-bearing capacity calculation is to ensure the continued existence of the LLB Group. In line with this objective, the adequacy of the Group's capital resources is tested using internal models. The results attained with the individual risk types are aggregated in a total risk potential and are compared with the capital available to cover these potential losses. This process enables the extent to be determined to which the LLB Group is in a position to bear potential losses.

For the purpose of the calculation of its risk-bearing capacity, the LLB Group employs a value-at-risk approach with a confidence level of 99.98 percent and a holding duration of one year. Correlations between the individual risk types are not considered.

The LLB Group's financial strength should remain unimpaired by fluctuations on the capital market. Scenario analyses and stress tests are employed to simulate external influences and assess their impact on equity capital. Where necessary, measures are taken to mitigate risks.

Assets under management

in CHF millions	31.12.2017	31.12.2016	+ / – %
Assets in own-managed funds	4'840	4'568	6.0
Assets with discretionary mandates	7'197	6'519	10.4
Other assets under management	38'215	35'341	8.1
Total assets under management *	**50'252**	**46'428**	**8.2**
of which double counting	4'295	3'957	8.5

* Incl. double counting.

in CHF millions	2017	2016	+ / – %
Total assets under management as at 1 January *	46'428	45'570	1.9
Net new money	470	– 65	
Market and currency movements **	3'354	848	
Other effects (incl. reclassifications)	0	75	
Total assets under management as at 31 December *	**50'252**	**46'428**	**8.2**

* Incl. double counting.
** Incl. interest and dividend income.

Breakdown of assets under management

in percent	31.12.2017	31.12.2016
By asset class		
Equities	24	23
Bonds	17	17
Investment funds	26	23
Liquidity	30	33
Precious metals / others	4	4
Total	**100**	**100**
By currency		
CHF	44	46
EUR	24	23
USD	24	24
Others	7	7
Total	**100**	**100**

Calculation method

Assets under management comprise all client assets managed or held for investment purposes. Basically, these include all balances due to customers, fiduciary time deposits and all valued portfolio assets.

Also included are other types of client assets, which can be deduced from the principle of the investment purpose. Custody assets (assets held solely for transaction and safekeeping purposes) are not included in assets under management.

Assets in own-managed funds

This item comprises the assets of the LLB Group's own investment funds.

Assets with discretionary mandates

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of assets with discretionary mandates. The figures comprise both assets deposited with Group companies and assets deposited with third parties, for which the Group companies hold a discretionary mandate.

Other assets under management

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of other assets under management. The figures comprise assets, for which an administration or advisory mandate is exercised.

Double counting

This item comprises fund units in own-managed funds which are contained in client portfolios with discretionary mandates and in other client safekeeping accounts.

Net new money

This position is composed of the acquisition of new clients, lost client accounts and inflows or outflows from existing clients. Performance-related asset fluctuations, e.g. price changes, interest and dividend payments including interest, commissions and expenses charged to client accounts, are not regarded as inflows or outflows. Acquisition-related changes to assets will also not be considered.

Financial statement of LLB AG in the online annual report with Excel files for your own statistics

Financial statement of LLB AG, Vaduz

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinische Landesbank Aktiengesellschaft Vaduz

Report on the audit of the financial statements

Opinion

As statutory auditor, we have audited the financial statements (balance sheet, income statement and notes to the financial statements (pages 211 to 233) and the management report (page 210) of Liechtensteinische Landesbank Aktiengesellschaft (LLB AG) for the year ending as at 31 December 2017.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position in accordance with Liechtenstein law. Further, the financial statements and the annual report comply with Liechtenstein law and the company's articles of association.

Basis for opinion

We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the financial statements and the annual report are free from material misstatement.

We audited the items and disclosures in the financial statements by means of analyses and surveys on a sample basis. Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach

Overview

Overall materiality: CHF 5.2 million, which represents 5 % of the result from normal business operations.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters, the following area of focus was identified:

- Valuation of loans

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 5.2 million
How we determined it	5 % of the result from normal business operations
Rationale for the materiality benchmark applied	We chose the result from normal business operations as the benchmark because, in our view, it is the benchmark against which the performance of LLB AG is most commonly measured. The result from normal business activities represents profit before tax and before changes to the provisions for general banking risks and is a generally accepted benchmark for materiality considerations.

We agreed with the Group Audit Committee that we would report to them misstatements above CHF 0.3 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter

LLB AG grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

As at 31 December 2017, loans amount to CHF 6.4 billion (31.12.2016: CHF 6.2 million) and thus represent the largest receivable item. Mortgage-based loans form the majority of the loan portfolio (75.2 % of total loans). In addition, the Bank grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual loss allowances. Calculating the amount of the individual loss allowance requires judgement. We focussed on the following two points:

- The methods used by the Bank to identify loans in the overall loan portfolio that may need a loss allowance, including loans that according to LLB AG's definition show indications of impairment.
- The appropriateness and consistent application of the policies and instructions issued by Group management relating to the calculation of the amount of individual loss allowances.

The recognition and measurement principles applied to accounts receivable from customers and the methods used to identify default risk, to determine the need for impairment and to evaluate collateral are described in the management report.

Please refer to page 216 (Accounting policies and valuation principles), page 219 (Notes to the balance sheet).

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of accounts receivable from customers:

- Credit processing and approval: Sample testing of the requirements and processes set out in the Group's internal policies and working instructions in relation to credit processing. We also tested that approvals were granted at the appropriate level of authority.
- Credit monitoring (periodic reviews): Sample testing of identified loans at risk and identifying any need for impairment.

Where significant judgement was required, we also challenged the decisions of those authorised to approve loans with our own critical opinion as part of our substantive tests of detail. Our tests of detail covered the following:

- Sample-based testing of new business and loans at risk in the loan portfolio (including loans with individual loss allowances or indications of impairment) to evaluate whether additional loss allowances were needed.
- Sample-based testing of the method used to calculate valuation adjustments on the loan portfolio in terms of its appropriateness and compliance with the policies and working instructions issued by the Group.

The combination of the tests of key controls and substantive testing of detail gives us sufficient assurance to make an adequate assessment of the valuation of customer loans.

The assumptions used by LLB AG are in line with our expectations.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Liechtenstein law and the company's articles of incorporation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We confirm that the proposal for the appropriation of retained earnings complies with Liechtenstein law and the company's articles of incorporation.

The annual report accords with the financial statements.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Claudio Tettamanti Auditor in charge	Valentin Studer

St. Gallen, 23 February 2018

Management report

The details of the management report of Liechtensteinische Landesbank AG, Vaduz, can largely be seen in the consolidated report of the LLB Group.

On the balance sheet date, Liechtensteinische Landesbank AG, Vaduz, and its subsidiaries held a total of 1'922'937 registered shares (previous year: 1'959'238 shares). This corresponds to a share capital stake of 6.2 percent (previous year: 6.4 %). With respect to the volume of and changes to treasury shares of Liechtensteinische Landesbank AG, reference is made to the individual financial statement. The Board of Directors proposes to the General Meeting of Shareholders on 9 May 2018 that a dividend of net CHF 2.00 per registered share be paid out.

No important changes have occurred since the balance sheet date which would necessitate the reporting of any additional data or a correction of the 2017 financial statement.

Balance sheet

in CHF thousands	Note	31.12.2017	31.12.2016	+/–%
Assets				
Cash and balances with central banks		3'376'198	2'778'888	21.5
Due from banks		2'174'930	3'382'303	–35.7
due on a daily basis		642'600	500'444	28.4
other claims		1'532'331	2'881'859	–46.8
Loans	1	6'406'992	6'179'539	3.7
of which mortgages	1	4'815'600	4'526'729	6.4
of which subordinated claims (gross)		0	0	
Bonds and other fixed-interest securities		939'152	796'903	17.9
Money market instruments		0	0	
from public authority issuers		0	0	
from other issuers		0	0	
Bonds		939'152	796'903	17.9
from public authority issuers		177'166	165'981	6.7
from other issuers		761'986	630'921	20.8
of which subordinated bonds		0	0	
Shares and other non-fixed-interest securities		227'354	344'176	–33.9
Participations	4	33	47	–30.7
Shares in associated companies	4	170'348	170'348	0.0
Intangible assets		41'651	43'580	–4.4
Fixed assets	6	88'225	91'258	–3.3
Own shares	2 a) / 3	94'894	78'987	20.1
Other assets	17	162'589	196'831	–17.4
Accrued income and prepayments		46'951	43'265	8.5
Total assets		**13'729'316**	**14'106'124**	**–2.7**

Liabilities				
Due to banks		1'071'357	993'287	7.9
due on a daily basis		560'303	566'342	–1.1
with agreed maturities or periods of notice		511'053	426'945	19.7
Due to customers		10'525'864	10'818'128	–2.7
savings deposits		2'366'888	3'068'702	–22.9
other liabilities		8'158'976	7'749'426	5.3
due on a daily basis		7'565'767	7'214'200	4.9
with agreed maturities or periods of notice		593'209	535'226	10.8
Certified liabilities		151'224	291'610	–48.1
medium-term notes		151'224	291'610	–48.1
Other liabilities	17	175'937	228'165	–22.9
Accrued expenses and deferred income		30'805	27'398	12.4
Provisions		14'545	32'153	–54.8
tax provisions	9	9'951	4'356	128.4
other provisions	9	4'594	27'797	–83.5
Provisions for general banking risks	9	310'000	310'000	0.0
Share capital	10	154'000	154'000	0.0
Share premium		47'750	47'750	0.0
Retained earnings		1'150'080	1'145'080	0.4
legal reserves		390'550	390'550	0.0
reserves for own shares		94'894	78'987	20.1
other reserves		664'636	675'543	–1.6
Balance brought forward		4'463	8'526	–47.6
Profit for the year		93'292	50'028	86.5
Total liabilities		**13'729'316**	**14'106'124**	**–2.7**

Off-balance sheet transactions

in CHF thousands	Note	31.12.2017	31.12.2016	+ / – %
Contingent liabilities	1 / 18	28'218	31'468	– 10.3
Credit risks		199'872	187'865	6.4
irrevocable commitments	1	199'834	187'826	6.4
call liabilities	1	37	39	– 4.0
Derivative financial instruments	19	13'302'397	10'758'892	23.6
Fiduciary transactions	20	364'129	222'940	63.3

Income statement

in CHF thousands	Note	2017	2016	+ / − %
Interest income		99'472	110'793	−10.2
of which from fixed-interest securities		11'309	11'494	−1.6
of which from trading transactions		12	29	−57.1
Interest expenses		−22'345	−22'537	−0.9
Net interest income		**77'128**	**88'256**	**−12.6**
Shares and other non-fixed-interest securities		372	1	
of which from trading transactions		372	1	
Participations and associated companies		0	0	
Income from securities		**372**	**1**	
Credit-related commissions and fees		312	357	−12.7
Commissions from securities and investment business		114'294	106'240	7.6
Other commission and fee income		20'112	21'384	−5.9
Commission and fee expenses		−47'641	−44'011	8.2
Net commission and fee income		**87'076**	**83'970**	**3.7**
Income from financial transactions		**70'944**	**38'459**	**84.5**
of which from trading business	21	53'011	33'809	56.8
Income from real estate holdings		1'145	1'212	−5.5
Sundry ordinary income		34'359	22'137	55.2
Other ordinary income		**35'504**	**23'349**	**52.1**
Total operating income		**271'024**	**234'036**	**15.8**
Personnel expenses	22	−94'653	−93'901	0.8
Administrative expenses	23	−41'991	−38'668	8.6
Total operating expenses		**−136'644**	**−132'569**	**3.1**
Gross operating profit		**134'379**	**101'467**	**32.4**
Depreciation on intangible assets and fixed assets		−19'815	−19'706	0.6
Sundry ordinary expenses	24	−15'844	−29'715	−46.7
Allowances on claims and allocations to provisions for contingent liabilities and lending risks	9	−6'597	−8'648	−23.7
Earnings from the release of allowances on claims and of provisions for contingent liabilities and lending risks	9	11'277	7'374	52.9
Write-downs to participations, shares in associated companies and securities treated as long-term investments		−14	0	
Earnings from write-ups to participations, shares in associated companies and securities treated as long-term investments		0	4'279	−100.0
Result from normal business operations		**103'386**	**55'051**	**87.8**
Income taxes		−9'867	−5'323	85.4
Other taxes		−227	301	
Releases / (Additions) to provisions for general banking risks		0	0	
Profit for the year *		**93'292**	**50'028**	**86.5**

* The return on capital (annual profit in relation to balance sheet total) amounted to 0.68 percent as at 31 December 2017 and to 0.35 percent as at 31 December 2016 (pursuant to the Banking Ordinance, Art. 24e, Para. 1, Point 6).

Distribution of balance sheet profit

The Board of Directors proposes to the General Meeting of 9 May 2018 that the balance sheet profit as at 31 December 2017 be distributed as follows:

in CHF thousands	2017	2016
Profit for the year	93'292	50'028
Balance brought forward	4'463	8'526
Balance sheet profit	97'755	58'554
Distribution of balance sheet profit		
Allocation to other reserves	35'000	5'000
Allocation to corporate capital (common stock) *	57'754	49'091
Balance carried forward *	5'001	4'463

* Shares eligible for dividends are all shares outstanding except for own shares as of record date. The amounts presented are based on the numbers of shares eligible for dividends as at 31 December 2017.

If this proposal is accepted, a dividend for the 2017 financial year of net CHF 2.00 per registered share will be paid out on 16 May 2018.

Notes on business operations

Liechtensteinische Landesbank Aktiengesellschaft with its registered office in Vaduz and two domestic branch offices is active as a full-service (universal) bank. LLB AG has subsidiaries in Liechtenstein, Austria and Switzerland. At the end of 2017, LLB AG employed 545 persons (2016: 536) on a full-time equivalent basis. The average headcount in 2016 amounted to 540 persons (2016: 526) on a full-time equivalent basis.

As a universal bank, LLB AG is engaged in the commission and fees business, credit and lending business, money market and interbank business, as well as securities trading business.

Commissions and fees business

The major proportion of revenues from commissions and fees business is attributable to commissions earned in connection with securities trading for customers. Other important income streams are provided by securities safe custody business, asset management (incl. investment funds) and brokering fiduciary investments.

Credit and lending business

The largest proportion of loans comprises mortgages, Lombard loans and advances to public institutions. Mortgages are granted to finance properties in Liechtenstein and in the neighbouring areas of Switzerland. Real estate financing for the rest of Switzerland and Lombard loans are granted within the scope of the integrated asset management business. A major proportion of loans and advances to public authorities relates to credit facilities extended to cantons and municipalities in Switzerland. As regards international syndicated loans, the bank is active to only a very limited extent in this line of business.

Money market and interbank business

Domestic and international funds deposited with the bank, which cannot be invested in the lending business, are placed with first-class banks, predominantly in Switzerland and Western Europe.

Securities trading business

The bank offers its clients a full range of services in connection with the execution and settlement of securities trading transactions. It trades for its own account only to a moderate extent. Transactions with derivative financial instruments for the bank's own account are largely employed for hedging purposes.

Accounting policies and valuation principles

Basic principles

The accounting and valuation policies are drawn up in accordance with the provisions of the Liechtenstein Person and Company Law (PGR), as well as the Liechtenstein Banking Law and the accompanying Banking Ordinance.

Recording of business

All completed business transactions are valued and recorded in the balance sheet and the profit and loss account according to the specified valuation principles. The transactions are booked on the transaction date. Up to their date of settlement or the value date, futures transactions are recorded at their replacement value under other assets or other liabilities.

Foreign currency translations

Assets and liabilities denominated in foreign currencies are translated at the foreign exchange middle rate prevailing on the balance sheet date. Bank note holdings for exchange business are translated at the bank note bid rate in effect on the balance sheet date. Exchange gains and losses arising from the valuation are booked to the profit and loss account. The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2017	31.12.2016
1 USD	0.9765	1.0167
1 EUR	1.1715	1.0726
1 GBP	1.3201	1.2588

Average rate	2017	2016
1 USD	0.9837	0.9889
1 EUR	1.1132	1.0895
1 GBP	1.2749	1.3397

Liquid funds, public authority debt instruments and bills approved for refinancing by central banks, balances due from banks and customers, liabilities

These items are shown in the balance sheet at nominal value minus any unearned discount on money market instruments.

Impaired due amounts, i.e. amounts due from debtors who probably will not repay them, are valued on an individual basis and their impairment is covered by specific allowances. Off-balance sheet transactions, such as commitments for loans, guarantees and derivative financial instruments, are also included in this valuation. Loans are regarded as overdue at the latest when interest and / or principal repayments are more than 90 days in arrears. Overdue and impaired interest payments are charged directly to allowances and provisions. Loans are put on a non-accrual basis if the interest due on them is deemed to be uncollectible and interest accrual is therefore no longer practical.

The impairment is measured on the basis of the difference between the book value of the claim and the probable recoverable amount taking into consideration counterparty risk and the net proceeds from the realisation of any collateral. If it is expected that the realisation process will take longer than one year, the estimated realisation proceeds are discounted on the balance sheet date. The specific allowances are deducted directly from the corresponding asset positions. A claim is reclassified as no longer endangered if the outstanding principal and interest are again repaid on time in accordance with the original contractual terms. To cover the risks in retail business, which are composed of numerous small claims, lump-sum individual allowances, calculated on the basis of empirical values, are made for the unsecured loans and overdrawn limits for which individual allowances have not already been considered.

Debt instruments and other fixed-interest securities, equities and other non-fixed-interest securities

Trading portfolios of securities and precious metals are valued at the market value on the balance sheet date. Securities for which there is no regular, active market are carried at the lower of cost or market value. Holdings of securities and precious metals as current assets are valued at the lower of cost or market value. Interest earnings are credited to the item interest income, dividend income is carried under the item income from securities. Price gains are shown under the item income from financial transactions.

Fixed-interest securities that are intended to be held until final maturity are valued according to the accrual method. Accordingly, interest income, including amortisation of premiums and accretion of discounts, is recognised on an accrual basis until final maturity. Interest-related realised capital gains or losses arising from the premature sale or redemption of securities are recognised on an accrual basis over the remaining period to maturity, i.e. up to the original date of final maturity. Interest earnings are credited to the item interest income. Equities and precious metals holdings held as fixed assets are valued at the lower of cost or market value. Dividend income is carried under the item income from securities. Allowances are shown under the items write-downs to participations, shares in associated companies and securities treated as long-term investments and earnings from write-ups to participations, shares in associated companies and securities treated as long-term investments, respectively.

Participations

Participations comprises shares owned by LLB AG in companies which represent a minority participation and which are held as long-term investments, as well as all participations of an infrastructural nature. These items are valued at cost minus necessary allowances.

Shares in associated companies

LLB AG's existing majority participations are recorded as shares in associated companies. These items are valued at cost minus necessary allowances.

Intangible assets

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that economic benefits will flow to the company from them, and the costs can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to ten years.

Low-cost acquisitions are charged directly to administrative expenses.

Tangible fixed assets

Real estate is valued at the acquisition cost plus any investment that increases the value of the property, less necessary depreciation. New buildings and refurbishments are depreciated over 33 years and building supplementary costs over 10 years. No depreciation is charged on undeveloped land unless an adjustment has to be made to allow for a reduction in its market value. Other physical assets include fixtures, furniture, machinery and IT equipment. They are capitalised and depreciated in full over their estimated economic life (3 to 6 years).

Low-cost acquisitions are charged directly to administrative expenses.

Treasury shares

Own shares (treasury shares) held by the Liechtensteinische Landesbank AG are recognised at market values up to the acquisition costs and are reported as treasury shares. The difference between the market value of treasury shares and the acquisition costs is reported in the income statement under income from financial transactions.

Allowances and provisions

In accordance with prudent accounting practice, specific allowances and provisions as well as general allowances are made for all risks existing on the balance sheet date. Allowances are offset directly with the corresponding asset position. Provisions are booked as such in the balance sheet.

Taxes

Accruals for taxes payable on the basis of the profits earned in the period under report are charged as expenses in the corresponding period. Provisions for deferred tax are formed in relation to allowances and provisions recognised only for tax purposes. The calculation is made on the basis of the estimated tax rates used for actual taxation.

Provisions for general banking risks

Provisions for general banking risks are precautionary reserves formed to hedge against latent risks in the bank's operating activities.

Off-balance sheet transactions

Off-balance sheet transactions are valued at nominal values. Provisions are made in the case of identifiable risks arising from contingent liabilities and other off-balance sheet transactions.

Derivative financial instruments

The gross replacement values of individual contracts in derivative financial instruments – positive and negative replacement values are not offset against each other – are stated in the balance sheet (under other assets or other liabilities) and in the notes to the financial statement. All replacement values for contracts concluded for the bank's own account are reported. In contrast, in the case of customer transactions only the replacement values for OTC contracts are reported, or for exchange-traded products if margin requirements are inadequate. The contract volumes are reported in the statement of off-balance sheet transactions and in the notes. Trading positions in financial derivatives are valued at market rates provided the contracts are listed on an exchange or a regular, active market exists. If this is not the case, the contracts are valued at the lower of cost or market value. If interest business positions are hedged with derivatives, the differential amount between the market value and the accrual method is recognised in the settlement account.

Statement of cash flows

On account of its obligation to prepare a consolidated financial statement, LLB AG is exempted from the necessity to provide a statement of cash flow. The consolidated statement of cash flow the LLB Group is a part of the consolidated financial statement.

Changes to the previous year

Apart from the adjustment made to the depreciation period with tangible fixed assets, there are no changes compared to the previous year.

Notes to the balance sheet

1 Type of collateral

		Type of collateral			
in CHF thousands		**Secured by mortgage**	**Other collateral**	**Unsecured**	**Total**
Loans					
Loans (excluding mortgage loans)		15'475	941'617	634'301	1'591'393
Mortgage loans					
residential property		3'831'857	433	3'882	3'836'171
office and business property		469'128	2'181	5'047	476'356
commercial and industrial property		216'601	0	0	216'601
other		264'666	3'420	18'386	286'472
Total loans	**31.12.2017**	**4'797'726**	**947'651**	**661'615**	**6'406'992**
	31.12.2016	4'500'130	987'805	691'604	6'179'539
Off-balance sheet transactions					
Contingent liabilities		1'631	22'590	3'997	28'218
Irrevocable commitments		80'968	5'350	113'517	199'834
Call liabilities		0	0	37	37
Total off-balance sheet transactions	**31.12.2017**	**82'599**	**27'939**	**117'551**	**228'090**
	31.12.2016	65'783	30'516	123'034	219'333

Impaired claims

in CHF thousands		**Gross outstanding amount**	**Estimated proceeds from realisation of collateral**	**Net outstanding amount**	**Specific allowances**
	31.12.2017	**64'710**	**35'630**	**29'080**	**29'080**
	31.12.2016	87'661	33'067	54'594	54'594

2 Securities and precious metals holdings

a Securities and precious metals trading positions

	Book value		Cost		Market value	
in CHF thousands	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Debt securities	50	3'770	50	3'741	50	3'770
listed	50	3'770	50	3'741	50	3'770
unlisted	0	0	0	0	0	0
Equities	1	3	43	45	1	3
listed	1	3	43	45	1	3
of which own shares	0	0	0	0	0	0
unlisted	0	0	0	0	0	0
Precious metals	1'293	6'143	1'293	6'143	1'293	6'143
Total	**1'344**	**9'916**	**1'386**	**9'930**	**1'344**	**9'916**

b Securities and precious metals holdings as current assets (excluding trading positions)

	Book value		Cost		Market value	
in CHF thousands	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Debt securities	939'101	793'133	952'599	794'346	950'021	793'133
listed	939'101	793'133	952'599	794'346	950'021	793'133
unlisted	0	0	0	0	0	0
Equities	95'012	137'792	168'744	234'735	95'620	137'792
listed	94'894	78'987	163'886	167'045	95'474	78'987
unlisted	118	58'805	4'858	67'690	146	58'805
Total	**1'034'113**	**930'925**	**1'121'343**	**1'029'082**	**1'045'641**	**930'925**

c Securities and precious metals as fixed assets

	Book value		Cost		Market value	
in CHF thousands	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Debt securities	0	0	0	0	0	0
listed	0	0	0	0	0	0
unlisted	0	0	0	0	0	0
Equities	227'225	285'363	231'127	291'030	234'540	293'319
listed	0	0	0	0	0	0
unlisted	227'225	285'363	231'127	291'030	234'540	293'319
Precious metals	28'358	6'183	28'358	6'183	28'358	6'183
Total	**255'583**	**291'546**	**259'485**	**297'213**	**262'898**	**299'502**

3 Own shares included in current assets (excluding trading positions)

	Quantity		Book value	
Quantity / in CHF thousands	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Start of year	1'959'238	1'974'622	78'987	70'790
Bought	0	0	0	0
Sold	− 36'301	− 15'384	− 3'159	− 1'339
Additions / (Impairments)	0	0	19'066	9'535
End of year	**1'922'937**	**1'959'238**	**94'894**	**78'987**

4 Participations and shares in associated companies

in CHF thousands	31.12.2017	31.12.2016
Participations		
With market value	0	0
Without market value	33	47
Total participations	**33**	**47**
Shares in associated companies		
With market value	0	0
Without market value	170'348	170'348
Total shares in associated companies	**170'348**	**170'348**

5 Substantial participations and shares in associated companies

Company name and registered office	Business activity	Curr-ency	Share capital	% share of votes	% share of capital
Participations					
Data Info Services AG, Vaduz	Service company	CHF	50'000	50.0	50.0
Shares in associated companies					
Bank Linth LLB AG, Uznach *	Bank	CHF	16'108'060	74.2	74.2
Liechtensteinische Landesbank (Österreich) AG, Vienna	Bank	EUR	2'000'000	100.0	100.0
LLB Asset Management AG, Vaduz	Asset management	CHF	1'000'000	100.0	100.0
LLB Berufliche Vorsorge AG *	Staff welfare scheme	CHF	500'000	100.0	100.0
LLB Beteiligungen AG, Uznach	Investment company	CHF	100'000	100.0	100.0
LLB Fund Services AG, Vaduz	Fund management company	CHF	2'000'000	100.0	100.0
LLB Holding (Schweiz) AG, Erlenbach	Holding company	CHF	250'000	100.0	100.0
LLB Invest AGmvK	Investment company	CHF	65'000	100.0	100.0
LLB Linth Holding AG, Uznach	Holding company	CHF	95'328'000	100.0	100.0
LLB Qualified Investors AGmvK, Vaduz	Investment company	CHF	50'000	100.0	100.0
LLB Services (Schweiz) AG *	Service company	CHF	100'000	100.0	100.0
LLB Verwaltung (Schweiz) AG, Erlenbach *	Management company	CHF	100'000'000	100.0	100.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Charitable foundation	CHF	30'000	100.0	100.0

* Indirect participation.

6 Statement of fixed assets

in CHF thousands	Cost	Accumulated depreciation	Book value 31.12.2016	Invest-ments	Dis-invest-ments	Reclassi-fications	Additions	Depre-ciation	Book value 31.12.2017
Total participations (non-controlling interests)	**2'187**	**−2'140**	**47**	**0**	**0**	**0**	**0**	**−14**	**33**
Total shares in associated companies	**206'967**	**−36'619**	**170'348**	**0**	**0**	**0**	**0**	**0**	**170'348**
Total securities and precious metals as fixed assets	**371'407**	**−79'861**	**291'546**	**249'400**	**−285'363**	**0**	**0**	**0**	**255'583**
Total intangible assets *	**127'867**	**−84'287**	**43'580**	**8'544**	**0**	**0**	**0**	**−10'473**	**41'651**
Real estate									
bank premises	172'073	−106'823	65'250	2'208	0	0	0	−4'754	62'704
other properties	25'038	−10'038	15'000	0	0	0	0	0	15'000
Other fixed assets	93'376	−82'368	11'008	4'102	0	0	0	−4'588	10'522
Total fixed assets	**290'487**	**−199'229**	**91'258**	**6'310**	**0**	**0**	**0**	**−9'342**	**88'225**
Fire insurance value of real estate			196'118						194'917
Fire insurance value of other fixed assets			33'611						40'205

* Solely licence and software costs.

Depreciation is carried out according to prudent business criteria over the estimated service life. No undisclosed reserves exist.

7 Pledged or assigned assets and assets subject to reservation of ownership

in CHF thousands	31.12.2017	31.12.2016
Excluding lending transactions and pension transactions with securities		
Book value of pledged and assigned (as collateral) assets	82'980	40'091
Actual commitments	0	0
Lending transactions and pension transactions with securities		
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with repurchase agreements	177'305	33'391
of which capable of being resold or further pledged without restrictions	177'305	33'391
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	395'266	622'876
of which resold or further pledged securities	41'864	42'707

8 Liabilities due to own pension funds

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Current account, call money and time deposits	26	2	
Savings deposits	27'122	17'061	59.0
Total	**27'149**	**17'063**	**59.1**

9 Allowances and provisions / provisions for general banking risks

in CHF thousands	Total 31.12.2016	Specific allowances	Recoveries, overdue interest, currency differences	New provisions charged to income statement	Provisions released to income statement	Total 31.12.2017
Allowances for loan default risks						
Specific allowances	54'594	– 17'809	– 3'025	6'597	– 11'277	29'080
Lump-sum individual allowances (incl. those for country risks)	0	0	0	0	0	0
Provisions for taxes and deferred taxes	4'356	0	0	5'595	0	9'951
Other provisions	27'797	– 19'096	0	892	– 4'999	4'594
Total allowances and provisions	**86'747**	**– 36'906**	**– 3'025**	**13'084**	**– 16'276**	**43'625**
Minus allowances	– 54'594					– 29'080
Total provisions according to balance sheet	**32'153**					**14'545**
Provisions for general banking risks	**310'000**					**310'000**

10 Share capital, significant shareholders and groups of shareholders linked by voting rights

in CHF thousands	31.12.2017 Total nominal value	31.12.2017 Quantity	31.12.2017 Capital ranking for dividend	31.12.2016 Total nominal value	31.12.2016 Quantity	31.12.2016 Capital ranking for dividend
Share capital	154'000	30'800'000	144'385	154'000	30'800'000	144'204
Total common stock	**154'000**	**30'800'000**	**144'385**	**154'000**	**30'800'000**	**144'204**

No conditional or authorised capital exists.

in CHF thousands	31.12.2017 Nominal	31.12.2017 Holding in %	31.12.2016 Nominal	31.12.2016 Holding in %
With voting right: Principality of Liechtenstein	88'500	57.5	88'500	57.5

11 Statement of shareholders' equity

in CHF thousands	2017
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	78'987
Other reserves	675'543
Provisions for general banking risks	310'000
Balance sheet profit	58'554
Total shareholders' equity as at 1 January (before profit distribution)	**1'715'384**
Dividend and other distributions from previous year's profit	−49'091
Net profit for the year	93'292
Allocation to provisions for general banking risks	0
Total shareholders' equity as at 31 December (before profit distribution)	**1'759'585**
Of which:	
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	94'894
Other reserves	664'636
Provisions for general banking risks	310'000
Balance sheet profit	97'755

12 Maturity structure of assets, liabilities and provisions

in CHF thousands		Sight deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Immo-bilised	Total
Assets									
Cash and balances with central banks		3'376'198	0	0	0	0	0	0	3'376'198
Due from banks		642'593	7	959'150	487'212	82'054	3'915	0	2'174'930
Loans		23'237	516'184	1'183'071	746'013	3'065'576	872'911	0	6'406'992
of which mortgage loans		21'014	122'817	299'413	582'963	2'991'024	798'368	0	4'815'600
Securities and precious metals held for trading		1'344	0	0	0	0	0	0	1'344
Securities and precious metals holdings as currents assets (excluding trading positions)		1'034'113	0	0	0	0	0	0	1'034'113
Securities and precious metals holdings as fixed assets		28'358	227'225	0	0	0	0	0	255'583
Other assets		250'041	1	55'202	16'733	47'362	19'849	90'966	480'155
Total assets	**31.12.2017**	**5'355'885**	**743'417**	**2'197'422**	**1'249'959**	**3'194'992**	**896'675**	**90'966**	**13'729'316**
	31.12.2016	4'506'154	660'021	2'782'874	2'231'160	2'869'815	963'824	92'276	14'106'124
Liabilities and provisions									
Due to banks		550'895	9'408	426'177	84'877	0	0	0	1'071'357
Due to customers		7'246'422	2'646'973	355'824	276'598	46	0	0	10'525'864
of which savings deposits			2'327'628	23'476	15'737	46	0	0	2'366'888
of which other liabilities		7'246'422	319'345	332'348	260'861	0	0	0	8'158'976
Certified liabilities		0	0	22'887	18'514	82'971	26'852	0	151'224
of which medium-term notes		0	0	22'887	18'514	82'971	26'852	0	151'224
Provisions (excluding provisions for general banking risks)		0	0	0	0	14'545	0	0	14'545
Other liabilities		68'388	0	53'196	13'010	51'066	21'082	0	206'742
Total liabilities and provisions	**31.12.2017**	**7'865'705**	**2'656'381**	**858'084**	**393'000**	**148'628**	**47'934**	**0**	**11'969'731**
	31.12.2016	7'787'860	3'094'664	849'659	387'979	176'390	94'189	0	12'390'740

Bonds and other fixed-interest securities that are due in the following financial year	255'060

13 Due from and due to associated companies and related parties

a Due from and due to participations and associated companies

in CHF thousands	31.12.2017	31.12.2016	+ / − %
Due from participations	0	0	
Due to participations	0	0	
Due from associated companies	604'880	607'086	−0.4
Due to associated companies	865'388	986'943	−12.3

b Due from and due to qualified participations and companies associated with the Principality

in CHF thousands	31.12.2017	31.12.2016	+ / − %
Due from the Principality of Liechtenstein	4	1'002	−99.6
Due to the Principality of Liechtenstein	0	0	
Due from companies associated with the Principality *	65'500	59'750	9.6
Due to companies associated with the Principality *	0	0	

* Associated companies: Liechtensteinische Kraftwerke, Liechtensteinische Gasversorgung, LTN Liechtenstein TeleNet AG, Liechtensteinische Post AG, Verkehrsbetrieb LIECHTENSTEINmobil and AHV-IV-FAK-Anstalt.

The stated due from and due to are included in the balance sheet in the items loans and due to customers.

c Loans to corporate bodies

in CHF thousands	31.12.2017	31.12.2016	+ / − %
Members of the Board of Directors	3'189	3'716	−14.2
Members of the Board of Management	2'895	2'895	0.0

d Related party transactions

Transactions (e.g. securities transactions, payment transfers, lending facilities and interest on deposits) were made with related parties under the same terms and conditions as applicable to third parties.

14 Breakdown of assets and liabilities by location

in CHF thousands	31.12.2017 FL / CH	31.12.2017 Abroad	31.12.2016 FL / CH	31.12.2016 Abroad
Assets				
Cash and balances with central banks	3'376'198	0	2'778'888	0
Due from banks	1'616'446	558'484	2'016'734	1'365'570
Loans (excluding mortgages)	895'044	696'349	1'082'951	569'859
Mortgage loans	4'815'600	0	4'476'929	49'800
Bonds and other fixed-interest securities	104'986	834'166	69'044	727'859
Shares and other non-fixed-interest securities	217'455	9'899	337'686	6'490
Participations	33	0	47	0
Shares in associated companies	98'508	71'840	98'508	71'840
Intangible assets	41'651	0	43'580	0
Fixed assets	88'225	0	91'258	0
Own shares	94'894	0	78'987	0
Other assets	97'092	65'497	130'944	65'887
Accrued income and prepayments	34'712	12'239	29'750	13'515
Total assets	**11'480'842**	**2'248'474**	**11'235'304**	**2'870'820**
Liabilities				
Due to banks	318'579	752'777	238'407	754'880
Due to customers (excluding savings deposits)	5'440'060	2'718'916	5'060'934	2'688'492
Savings deposits	2'045'987	320'900	2'717'306	351'396
Certified liabilities	151'224	0	291'610	0
Other liabilities	137'802	38'134	163'935	64'229
Accrued expenses and deferred income	20'080	10'725	16'937	10'460
Provisions	14'545	0	32'152	1
Provisions for general banking risks	310'000	0	310'000	0
Share capital	154'000	0	154'000	0
Share premium	47'750	0	47'750	0
Legal reserves	390'550	0	390'550	0
Reserves for own shares	94'894	0	78'987	0
Other reserves	664'636	0	675'543	0
Profit carried forward	4'463	0	8'526	0
Profit for the year	93'292	0	50'028	0
Total liabilities	**9'887'863**	**3'841'453**	**10'236'665**	**3'869'458**

15 Geographical breakdown of assets by location

in CHF thousands	31.12.2017 Absolute value	31.12.2017 % of total	31.12.2016 Absolute value	31.12.2016 % of total
Liechtenstein / Switzerland	11'480'842	83.6	11'235'304	79.6
Europe (excluding Liechtenstein / Switzerland)	1'402'259	10.2	2'167'187	15.4
North America	198'049	1.4	138'337	1.0
Asia	386'590	2.8	333'325	2.4
Others	261'576	1.9	231'970	1.6
Total assets	**13'729'316**	**100.0**	**14'106'124**	**100.0**

16 Breakdown of assets and liabilities by currency

in CHF thousands	CHF	EUR	USD	Others	Total
Assets					
Cash and balances with central banks	3'362'914	12'524	424	336	3'376'198
Due from banks	425'668	515'525	741'138	492'599	2'174'930
Loans (excluding mortgages)	791'866	323'382	410'899	65'247	1'591'393
Mortgage loans	4'812'612	2'987	0	0	4'815'600
Bonds and other fixed-interest securities	418'447	200'656	320'048	0	939'152
Shares and other non-fixed-interest securities	195'614	25'300	6'440	0	227'354
Participations	33	0	0	0	33
Shares in associated companies	170'348	0	0	0	170'348
Intangible assets	41'651	0	0	0	41'651
Fixed assets	88'225	0	0	0	88'225
Own shares	94'894	0	0	0	94'894
Other assets	135'084	45	26'697	762	162'589
Accrued income and prepayments	29'097	7'180	9'882	792	46'951
Total on-balance sheet assets	**10'566'453**	**1'087'599**	**1'515'527**	**559'737**	**13'729'316**
Delivery claims from forex spot, forex futures and forex options transactions	3'066'375	4'058'271	3'501'747	911'686	11'538'079
Total assets	**13'632'828**	**5'145'870**	**5'017'274**	**1'471'423**	**25'267'395**
Liabilities					
Due to banks	271'422	318'426	371'364	110'144	1'071'357
Due to customers (excluding savings deposits)	3'944'560	1'705'043	2'005'229	504'144	8'158'976
Savings deposits	2'362'906	3'981	0	0	2'366'888
Certified liabilities	143'437	7'787	0	0	151'224
Other liabilities	162'906	7'514	2'547	2'969	175'937
Accrued expenses and deferred income	18'918	2'610	8'278	999	30'805
Provisions	14'545	0	0	0	14'545
Provisions for general banking risks	310'000	0	0	0	310'000
Share capital	154'000	0	0	0	154'000
Share premium	47'750	0	0	0	47'750
Legal reserves	390'550	0	0	0	390'550
Reserves for own shares	94'894	0	0	0	94'894
Other reserves	664'636	0	0	0	664'636
Profit carried forward	4'463	0	0	0	4'463
Profit for the year	93'292	0	0	0	93'292
Total on-balance sheet liabilities	**8'678'280**	**2'045'361**	**2'387'418**	**618'257**	**13'729'316**
Delivery liabilities from forex spot, forex futures and forex options transactions	4'992'336	3'070'079	2'598'918	880'392	11'541'725
Total liabilities	**13'670'616**	**5'115'440**	**4'986'336**	**1'498'649**	**25'271'041**
Net position per currency	**– 37'787**	**30'430**	**30'938**	**– 27'227**	**– 3'646**

17 Other assets and liabilities

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Precious metals holdings	29'651	12'327	140.5
Tax prepayments	439	303	45.1
Positive replacement values *	74'512	104'782	– 28.9
Settlement account	51'151	74'104	– 31.0
Clearing accounts	3'035	1'287	135.7
Deferred tax claim	3'801	4'028	– 5.6
Total other assets	**162'589**	**196'831**	**– 17.4**
Charge accounts	4'967	4'399	12.9
Negative replacement values *	118'118	161'142	– 26.7
Other receivables	16'440	21'130	– 22.2
Settlement account	17'168	23'227	– 26.1
Clearing accounts	19'244	18'267	5.3
Total other liabilities	**175'937**	**228'165**	**– 22.9**

* Replacement values are shown gross.

Notes to off-balance sheet transactions

18 Contingent liabilities

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Credit guarantees and similar instruments	15'251	19'372	– 21.3
Performance guarantees and similar instruments	6'666	6'439	3.5
Other contingent liabilities	6'302	5'657	11.4
Total contingent liabilities	**28'218**	**31'468**	**– 10.3**

19 Open derivative contracts

		Trading instruments			"Hedging" instruments		
in CHF thousands		Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments							
Swaps		0	0	0	17'168	57'097	1'721'000
Forward transactions		1	46	9'910	0	0	0
Foreign exchange contracts							
Forward contracts		54'231	57'864	11'377'417	0	0	0
Options (OTC)		2'649	2'649	83'107	0	0	0
Precious metals							
Forward contracts		17	17	2'252	0	0	0
Options (OTC)		0	0	0	0	0	0
Equity / Index contracts							
Options (OTC)		445	445	108'711	0	0	0
Total excluding netting agreements	**31.12.2017**	**57'344**	**61'021**	**11'581'397**	**17'168**	**57'097**	**1'721'000**
	31.12.2016	81'555	80'836	9'007'892	23'227	80'306	1'751'000

Liechtensteinische Landesbank AG has concluded no netting agreements.

20 Fiduciary transactions

in CHF thousands	31.12.2017	31.12.2016	+ / – %
Fiduciary deposits with other banks	364'129	222'940	63.3
Total fiduciary transactions	**364'129**	**222'940**	**63.3**

Notes to the income statement

21 Income from trading operations

in CHF thousands	2017	2016	+ / – %
Foreign exchange trading	51'222	31'405	63.1
Foreign note trading	1'455	1'603	– 9.2
Precious metals trading	173	755	– 77.0
Securities trading	161	45	255.3
Total	**53'011**	**33'809**	**56.8**

22 Personnel expenses

in CHF thousands	2017	2016	+ / – %
Salaries and compensations	– 74'869	– 74'454	0.6
Social benefits and retirement benefit plans	– 15'545	– 15'480	0.4
of which retirement benefit plans	– 10'386	– 10'312	0.7
Other personnel expenses	– 4'240	– 3'966	6.9
Total	**– 94'653**	**– 93'901**	**0.8**

The compensation of the Board of Directors and the Board of Management are disclosed in the consolidated financial statement.

23 Administrative expenses

in CHF thousands	2017	2016	+ / – %
Occupancy expenses	– 2'918	– 3'173	– 8.0
Expenses for IT, machinery, vehicles and other equipment	– 14'025	– 13'857	1.2
Other business expenses	– 25'048	– 21'638	15.8
Total	**– 41'991**	**– 38'668**	**8.6**

24 Other ordinary expenses

in CHF thousands	2017	2016	+ / – %
Losses on receivables	– 15'450	– 976	
Operational risk	0	– 26'180	– 100.0
Sundry other ordinary expenses	– 394	– 2'559	– 84.6
Total other ordinary expenses	**– 15'844**	**– 29'715**	**– 46.7**

Risk management

Overview

LLB AG's risk policy is governed, in legal and operative terms, by the Liechtenstein Banking Law, the corresponding Banking Ordinance and the principles of the Basel Committee for Banking Supervision as well as by the bank's own statutes and business regulations. The ultimate responsibility for basic risk policy and for continually monitoring the bank's risk exposure lies with the Board of Directors. In fulfilling this function, it is supported by the Risk Committee. The Board of Management has overall responsibility for risk management. It is supported by separate expert risk committees. An independent Group Credit & Risk Management monitors compliance with the issued regulations.

Market risks

On the basis of its business activity, LLB AG is exposed primarily to interest rate fluctuation, share price and currency risks. The Group Risk Management Committee is responsible for managing risks associated with trading activities, and the Asset & Liability Committee for controlling interest rate fluctuation risks. These bodies limit risk exposure using sensitivity and value-at-risk analyses. Aggregate risks are analysed and worst-case scenarios are simulated on a regular basis.

Credit default risks

Credit and lending facilities are extended primarily in interbank business, in private and corporate client business mainly on a secured basis, and in business transactions with public authorities. The Group Credit Risk Committee is responsible for credit risk management. The bank pursues a conservative collateral lending policy. Credits and loans are granted within the scope of strict credit approval procedures. An internal rating system is employed to determine risk-related terms and conditions. A limits system based on the creditworthiness of the individual country is used to control country risks.

Valuation estimates of real estate are stipulated in internal directives. The market value, which serves as the basis for loan-to-value ratios, is determined as follows:

- owner-occupied property: actual value
- investment property: productive and actual value, depending on the property and the ratio of productive to actual value
- owner-used commercial or industrial property: the productive and actual values attainable on the market, depending on the property and the ratio of productive to actual value
- building land: internally stipulated price estimates taking into consideration future use

Operational and legal risks

Internal regulations and directives concerning organisation and controls are employed to limit exposure to operative and legal risks. In formulating these instructions, the Board of Management is supported by the Operational Risk Committee. Compliance with these regulations is regularly checked by the Group Compliance and Group Operational Risk / ICS departments and by Group Internal Audit. External legal experts are brought in on a case-by-case basis to control and manage legal risks.

Liquidity risks

Liquidity risks are monitored and managed in accordance with the provisions of banking law.

Business policy concerning the use of derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients.

Locations and addresses

Headquarters

Liechtensteinische Landesbank AG
Städtle 44 · P.O. Box 384 · 9490 Vaduz · Liechtenstein
Telephone + 423 236 88 11 · Fax + 423 236 88 22
Internet www.llb.li · E-mail llb@llb.li

Branches

Balzers
Höfle 5 · 9496 Balzers · Liechtenstein
Telephone + 423 388 22 11 · Fax + 423 388 22 22

Eschen
Essanestrasse 87 · 9492 Eschen · Liechtenstein
Telephone + 423 377 55 11 · Fax + 423 377 55 22

Representative offices

Zurich-Erlenbach
Seestrasse 57 · 8703 Erlenbach · Switzerland
Telephone + 41 58 523 91 61 · Fax + 41 58 523 91 62

Geneva
12 Place de la Fusterie · 1204 Geneva · Switzerland
Telephone + 41 22 737 32 11 · Fax + 41 22 737 32 22

Dubai
Gold & Diamond Park, Building no. 4 · Office no. 205 / 206
P.O. Box 30774 · Dubai · U. A. E.
Telephone + 971 4 402 80 00 · Fax + 971 4 323 79 71

Abu Dhabi
27th floor (CH) · H.E. Sheikh Sultan Bin Zayed Bld · Corniche Rd.
P.O. Box 48230 · Abu Dhabi · U. A. E.
Telephone + 971 2 665 56 66 · Fax + 971 2 665 52 22

Group companies

Liechtensteinische Landesbank (Österreich) AG
Wipplingerstrasse 35 · 1010 Vienna · Austria
Telephone + 43 1 533 73 83-0 · Fax + 43 1 533 73 83-22
Internet www.llb.at · E-mail llb@llb.at

Bank Linth LLB AG
Zürcherstrasse 3 · P.O. Box 168 · 8730 Uznach · Switzerland
Telephone + 41 844 11 44 11 · Fax + 41 844 11 44 12
Internet www.banklinth.ch · E-mail info@banklinth.ch

LLB Asset Management AG
Städtle 7 · P.O. Box 201 · 9490 Vaduz · Liechtenstein
Telephone + 423 236 95 00 · Fax + 423 236 95 06
Internet www.llb.li/assetmanagement
E-mail assetmanagement@llb.li

LLB Fund Services AG
Äulestrasse 80 · P.O. Box 1238 · 9490 Vaduz · Liechtenstein
Telephone + 423 236 94 00 · Fax + 423 236 94 06
Internet www.llb.li/fundservices · E-mail fundservices@llb.li

FSC www.fsc.org MIX Paper from responsible sources FSC® C013308

Swiss Climate climateneutral printing SC2018030101 • www.swissclimate.ch

Publishing information

Published by: Liechtensteinische Landesbank AG, 9490 Vaduz, Liechtenstein · **Design and layout:** NeidhartSchön AG, 8037 Zürich, Schweiz · **Printed by:** BVD Druck + Verlag AG, 9494 Schaan, Liechtenstein · **Photos:** Roland Korner, close up AG, 9495 Triesen, Liechtenstein · **Consultants:** GRI sustainability reporting, Sustainserv, 8002 Zurich, Switzerland · **Paper:** Printed on Lessebo 1.3 Rough White

1925E 04.18