

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 to 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-degree 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

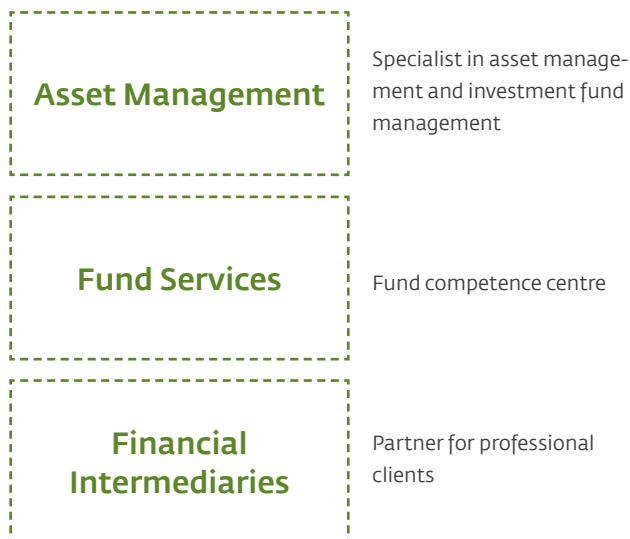
	31.12.2017	31.12.2016	+ / - %
Business volume (in CHF millions)	16'007	14'754	8.5
Assets under management (in CHF millions)	14'316	13'283	7.8
Loans (in CHF millions)	1'691	1'471	15.0
Employees (full-time equivalents, in positions)	161	153	5.5

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.



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 and 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 as 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 ex-

penses 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.

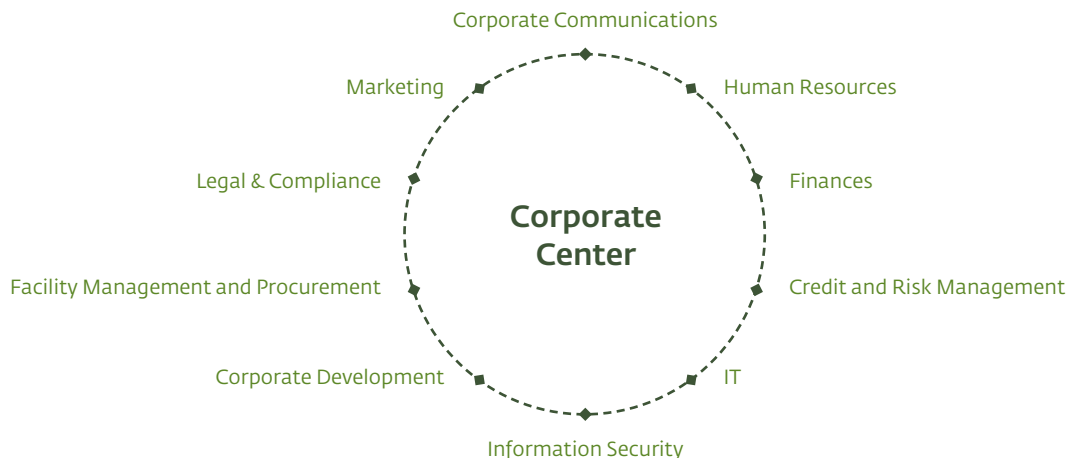
Digitalisation of banking business

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 inter-linked 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 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