Liechtensteinische Landesbank 1861

Tradition meets Innovation.

# Growth

Consolidated interim financial reporting 2019

hr2019.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:
Asset Management and Fund Services

### Three high-earning market divisions

31.0 %
**Retail & Corporate Banking**

31.5 %
**Private Banking**


37.5 %
**Institutional Clients**

### Diversified income structure

47.5 %
**Investment business**

12.8 %
**Trading business**


39.7 %
**Interest business**

### Outstanding investment competence

**Refinitiv Lipper Group Award for the best fund range in Europe, winning in the discipline "Overall Small Company"**

### Strong in three home markets

**Most important universal bank in Liechtenstein**

**Largest regional bank in eastern Switzerland**

**Leading asset management bank in Austria**

# Contents



To the online interim financial reporting
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# 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

| | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| Share capital (in CHF) | 154'000'000 | 154'000'000 | 0.0 |
| Total of registered shares issued (fully paid up) | 30'800'000 | 30'800'000 | 0.0 |
| Total shares outstanding, eligible for dividend | 30'578'507 | 30'675'159 | −0.3 |

| | 30.06.2019 | 30.06.2018 | +/−% |
|---|---|---|---|
| Weighted average shares outstanding | 30'628'215 | 28'913'975 | 5.9 |

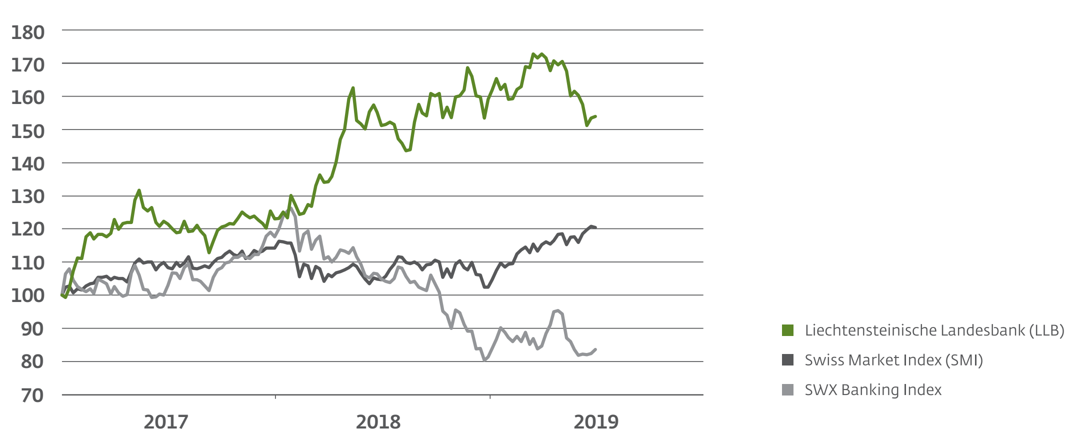
## Information per share

| | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| Nominal value (in CHF) | 5.00 | 5.00 | 0.0 |
| Share price (in CHF) | 62.10 | 64.20 | −3.3 |

| | 30.06.2019 | 30.06.2018 | +/−% |
|---|---|---|---|
| Basic earnings per share (in CHF) | 1.88 | 1.46 | 28.8 |
| Price / earnings ratio | 16.53 | 20.92 | |

## Comparison of LLB share

Indexed from 1 January 2017



# Key figures

## Consolidated income statement

| in CHF millions | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|
| **Income statement** | | | |
| Operating income | 223.7 | 186.3 | 20.1 |
| Operating expenses | −152.2 | −131.1 | 16.1 |
| Net profit | 61.1 | 45.8 | 33.3 |
| **Performance figures** | | | |
| Cost-Income-Ratio (in per cent) * / ** | 69.7 | 72.8 | |
| Return on equity attributable to the shareholders of LLB (in per cent) | 6.1 | 4.8 | |

* Operating expenses (excluding legal and litigation risks) in relation to operating income (excluding expected credit losses).
** Adjusted to consider market effects (interest rate swaps and price gains) the Cost-Income-Ratio for the first half 2019 stood at 71.2 per cent, and for the first half 2018 at 70.7 per cent.

## Consolidated balance sheet and capital management

| in CHF millions | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| **Balance sheet** | | | |
| Total equity | 2'001 | 2'010 | −0.4 |
| Total assets | 23'122 | 22'892 | 1.0 |
| **Capital ratio** | | | |
| Tier 1 ratio (in per cent) * | 19.0 | 19.0 | |
| Risk-weighted assets | 8'261 | 8'225 | 0.4 |

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

## Others

| in CHF millions | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|
| Net new money | 2'004 | 1'119 | 79.0 |

| | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| Business volume (in CHF millions) | 85'585 | 80'143 | 6.8 |
| Assets under management (in CHF millions) | 72'565 | 67'290 | 7.8 |
| Loans (in CHF millions) | 13'020 | 12'853 | 1.3 |
| Employees (full-time equivalents, in positions) | 1'092 | 1'086 | 0.6 |

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 2019 consolidated interim financial reporting in an interactive online version:

German: http://hb2019.llb.li
English: http://hr2019.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.

**Defined by growth**

## Dear shareholders

The LLB Group started the new business year with great drive and conviction. Both client assets under management and loans to clients have posted new record values, showing clearly that our StepUp2020 strategy is taking full effect. We are firmly anchored in our three domestic markets and have successfully expanded our business activity. Our earnings structure is broadly diversified and we possess a robust capital base. In the 2018 business year the LLB Group set an historic milestone with its core element "Growth", it is following up this year by focusing on the core element "Profitability".

### Growth on course

The LLB Group grew as planned in the first half of 2019. The business volume increased by CHF 5.4 billion to CHF 85.6 billion. On the back of a net new money inflow of CHF 2.0 billion we were able to expand sustainably and substantially in all three market divisions. Client assets under management rose to CHF 72.6 billion. Loans to clients climbed to CHF 13.0 billion. As was expected, growth in mortgage lending business slowed somewhat. The mortgage volume increased by 1.0 percent to CHF 11.2 billion.

The economic and political environment remained challenging in the first half of 2019 and continued to contribute to uncertainty and restraint on the part of investors. At the same time, Swiss franc interest rates fell to historically low levels. Margins came under pressure both in interest differential and commissions business. Nevertheless, the LLB Group's operative result continued to progress positively. In comparison with the equivalent period in the previous year, the downward trend with Swiss franc interest rates led to lower valuation gains with interest rate swaps, as measured on the reporting date. In contrast, the stock market posted a positive performance, which led to accounting gains with financial investments, as measured on the reporting date. At CHF 61.1 million, the Group's net profit was 33.3 percent above the previous year's level (see the "Consolidated interim management report", pages 16 and 17).

### Focus on profitability

In the currently challenging business environment our focus is squarely on achieving a further increase in profitability. Thanks to the growth we have attained, we have created a good basis for this aim. In addition, various measures are contributing to increasing revenues in operative business and enhancing the quality of our earnings structure. For example, our modular "LLB Invest" range of products has been very successful. Since its introduction in 2015, we have been able to double the volume of asset management and investment advisory mandates. In parallel, we are maintaining our tried and tested cost management system, which demands a strict prioritisation of expenditure. These measures are showing effect: the LLB Group reduced its Cost-Income-Ratio to 69.7 percent.

### LLB becomes a fund powerhouse

Thanks to our four investment fund management companies in the three domestic markets Liechtenstein (FL), Austria (A) and Switzerland (CH), we are able to position ourselves as a fund powerhouse in the FL / A / CH region. Under this umbrella, around 80 employees administer over 600 investment funds having a volume of almost CHF 34 billion. Investment fund business is a growth market. From our three locations in Vaduz, Vienna and Zurich we can provide our clients with optimal services that exploit the individual advantages of each location. The fund companies that joined the LLB Group in 2018: LLB Swiss Investment AG in Zurich, as well as LLB Immo KAG and LLB Invest KAG in Vienna, strengthen our market presence.

**Roland Matt**
Group CEO

**Georg Wohlwend**
Chairman of the Board of Directors

### LLB Österreich makes positive profit contribution

In the first half of 2019, LLB Österreich made a positive contribution to the LLB Group's profit. This confirms the validity of our growth strategy, and that we are pursuing the correct course with the acquisition of Semper Constantia Privatbank AG. Thanks to the commitment of the many staff involved, the merger and integration with LLB Österreich have been accomplished in the shortest time.

In another step to further interconnect our three banks, at the beginning of 2020, LLB Österreich will migrate to our core banking system. In future, therefore, all our banks will operate the same Avaloq platform. This will enable clients of LLB Österreich to benefit from the entire spectrum of products and services offered by the LLB Group. These measures will also enable us to exploit synergies and enhance groupwide efficiency.

### Relocation to DIFC – a major step for our business base in Dubai

2019 is also a defining year for our Representative Office in Dubai. During the summer months it will move into new offices in the Dubai International Financial Centre (DIFC), a so-called Financial Free Zone. In combination with the move it is also changing its organisational structure. The LLB Representative Office in Dubai will be upgraded into a branch. This brings us closer to our clients and improves our ability to react. This relocation represents an important step for us in further developing and expanding our activities in the Middle East – a market that has grown strongly in recent years.

### Successful bond issue strengthens our refinancing structure

In another important step during the first half of 2019 we successfully carried out a bond issue totalling CHF 150 million on 7 May 2019. The subscription register was over-subscribed after only a few minutes, a sign of the great confidence that investors have in us. The successful bond issue has enabled the LLB Group to optimise its refinancing structure and gain access to the capital market. This was the first bond issue the LLB Group has made since 2006.

### European Champions title for LLB Asset Management

The investment competence of our Asset Management is one of the particular strengths of the LLB Group. At the Refinitiv Lipper Group Awards in April 2019, the LLB Group was named European Champions in the Overall Small Company category. This gold award demonstrates that we have the best range of bond, equity and investment objective funds in Europe in our company category. This and the other awards won underline the outstanding investment competence of the staff of LLB Asset Management.

### Digital banking and the bank branches of the future

Digitalisation is changing our clients' requirements. To fulfil these changing needs, we are in the process of supplementing our Online und Mobile Banking with various new functions and improving user-friendliness. Our Mobile Banking app is being completely redesigned so that clients will benefit from an improved layout, intuitive user navigation and personalised push messages.

The possibility of simply and efficiently carrying out bank transactions digitally is having a profound impact on traditional bank counter business. The LLB Group is deploying a new bank branch concept to meet this challenge. In our newly designed bank branches, we are focusing on the provision of advice and high functionality in multi-media client zones. Design and materialisation, as well as an innovative mix of services and products will provide our clients with an inspiring experience in a pleasant atmosphere. After Bank Linth has now remodelled almost all its 19 branches in line with its "Bank of the Future" concept, LLB opened its own redesigned bank branch in Balzers in March 2019. The bank branches in Eschen and Vaduz are to be remodelled by 2021.

### Innovation management: ideas generate solutions

Innovation is a success factor that enables us to push ahead with the digitalisation of banking business through various channels, and to improve our fitness for the future. We do not believe that innovation is simply created, but rather that it has to be fostered and promoted within an organisation and therefore involves every individual employee. Since the previous year, all our employees have the possibility of acting directly as drivers of innovation, of submitting ideas and of being leaders of an agile process. The concept has been successful; the first prototypes derived from these ideas are ready for testing by employees and clients. These include a payment systems app and an app that offers young clients an holistic, digital savings solution.

**Financial strength and stability**

The LLB Group is superbly capitalised and still has plenty of scope to fulfil its growth ambitions. Its financial security and stability remain unchanged at a very high level. At 30 June 2019, our equity totalled CHF 2.0 billion and the tier 1 ratio stood at 19.0 percent. This ratio substantially exceeds the legal requirements and demonstrates our very sound capital base in international comparison. In April 2019, the rating agency Moody's confirmed Liechtensteinische Landesbank's Aa2 deposits rating, which underlines our financial strength and stability. Thanks its stable equity capital structure, LLB was able to unconditionally support the Government's initiative to revoke the limited state guarantee for savings account deposits and medium-term notes (cash bonds) as per 1 July 2019.

**Strategic priorities up to the end of 2020**

Our acquisitions are bearing fruit: the expansion of LLB Österreich to become the leading asset management bank in Austria has strengthened our market position. Our three new fund management companies in Switzerland and Austria open up additional possibilities for us. We have available the necessary capital to make further acquisitions in line with our strategy. At the same time, we are continuing to invest in the future. In view of changing client requirements, we are driving forward our digitalisation of banking business and realigning our physical points of contact to suit our clients' needs.

We are well on the way to achieving, even exceeding, three of our four financial objectives. We are striving to reduce our Cost-Income-Ratio even further towards 65 percent. Accordingly, in the last 18 months of the StepUp2020 strategy period, we are placing the focus on our core element "Profitability". We expect to achieve further operative progress and attain a solid business result in the second half of 2019.

**Thank you for your trust**

We would like to thank you, our esteemed shareholders, and our clients for your trust and loyalty. A sincere note of thanks also to our staff, who strive to fulfil the requirements of our clients with great expertise and élan by developing innovative solutions for them.

Yours sincerely

**Roland Matt**
Group CEO

**Georg Wohlwend**
Chairman of the Board of Directors

# Retail & Corporate Banking Segment

## Private and corporate clients

The Retail & Corporate Banking Division of the LLB Group offers the entire spectrum of banking and financial services for private and corporate clients in Liechtenstein and Switzerland at all phases of life and the business cycle. Traditionally, savings and mortgage lending business has always played a very important role. This is supplemented by financial planning and corporate pension provisioning.

In addition, the Retail & Corporate Banking Division provides specific investment advice and asset management to clients having available assets of up to CHF 0.5 million. At the same time, the LLB Group offers services for small and medium-sized enterprises (SMEs). Retail & Corporate Banking combines modern bank branches with mobile and web-based services. It has three branches in Liechtenstein and 19 in the Swiss regions of Linthgebiet, Zürichsee, Sarganserland, Ausserschwyz, Winterthur and Thurgau.

## Business segment result

Interest differential business, which comprises the largest part of earnings in private and corporate client business, developed positively. The pressure on margins in mortgage business was more than compensated for by growth in lending business. In the reporting period value allowances for credit loss expense were released. In spite of investments made in the branch and distribution network, operating expenses rose only marginally. The business volume expanded by 3.8 percent to CHF 19.9 billion. Client assets increased by around 9 percent to CHF 9.2 billion. The segment posted new money inflows from private and corporate clients in the home markets of Switzerland and Liechtenstein. The segment profit before tax decreased from CHF 31.6 million to CHF 29.4 million.

## Segment reporting

| in CHF thousands | First half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Net interest income | 45'575 | 44'841 | 1.6 |
| Expected credit losses | 3'278 | 5'434 | – 39.7 |
| Net interest income after expected credit losses | 48'853 | 50'274 | – 2.8 |
| Net fee and commission income | 16'117 | 15'737 | 2.4 |
| Net trading income | 5'118 | 5'541 | – 7.6 |
| Other income | 1'055 | 711 | 48.3 |
| **Total operating income** | **71'142** | **72'264** | **– 1.6** |
| Personnel expenses | – 14'555 | – 15'183 | – 4.1 |
| General and administrative expenses | – 842 | – 812 | 3.7 |
| Depreciation and amortisation | 0 | 0 | |
| Services (from) / to segments | – 26'378 | – 24'678 | 6.9 |
| **Total operating expenses** | **– 41'775** | **– 40'673** | **2.7** |
| **Segment profit before tax** | **29'367** | **31'590** | **– 7.0** |

## Performance figures

| | First half 2019 | First half 2018 |
|---|---|---|
| Gross margin (in basis points) * | 68.9 | 70.7 |
| Cost-Income-Ratio (in per cent) ** | 61.6 | 60.9 |
| Net new money (in CHF millions) | 205 | 200 |
| Growth of net new money (in per cent) | 2.4 | 2.4 |

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

## Additional information

| | 30.06.2019 | 31.12.2018 | + / – % |
|---|---|---|---|
| Business volume (in CHF millions) | 19'875 | 19'142 | 3.8 |
| Assets under management (in CHF millions) | 9'186 | 8'449 | 8.7 |
| Loans (in CHF millions) | 10'689 | 10'693 | – 0.0 |
| Employees (full-time equivalents, in positions) | 189 | 197 | – 4.1 |

# Private Banking Segment

## Private Banking

The Private Banking Division of the LLB Group combines advisory quality and investment competence with modern technology. The focus lies on the onshore markets of Liechtenstein, Switzerland and Austria, the traditional cross-border markets in Germany and Western Europe, as well as the growth markets in Central and Eastern Europe and the Middle East. In addition, the Private Banking Division is responsible for groupwide product management.

The Private Banking Division offers international clients investment advice, wealth management, asset structuring, financing facilities, as well as financial and retirement planning. These services are provided at its three banks in Liechtenstein (Vaduz), Switzerland (Uznach) and Austria (Vienna), as well at the bank branches of Bank Linth and LLB AG in Eastern Switzerland and Liechtenstein and at representative offices in Zurich-Erlenbach, Geneva, Abu Dhabi (UAE) and the branch in Dubai (UAE).

## Business segment result

The Private Banking segment increased its operating income by 14.4 percent. The acquisition of Semper Constantia Privatbank AG contributed around CHF 5 million to this performance. Adjusted to take into consideration the effects of the acquisition, operating income rose by around 6 percent. Operating expenses increased, on the one hand because of the acquisition, and on the other, due to the expansion of adviser capacity in line with strategy. Client assets under management climbed slightly to CHF 16.4 billion. The Austrian domestic market and the growth markets of the Middle East contributed to this performance. The business volume expanded by 0.5 percent to CHF 18.3 billion.

## Segment reporting

| in CHF thousands | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|
| Net interest income | 21'187 | 16'698 | 26.9 |
| Expected credit losses | 464 | −110 | |
| Net interest income after expected credit losses | 21'651 | 16'588 | 30.5 |
| Net fee and commission income | 39'886 | 36'296 | 9.9 |
| Net trading income | 3'967 | 4'396 | −9.8 |
| Other income | 1 | 2 | −53.2 |
| **Total operating income** | **65'505** | **57'281** | **14.4** |
| Personnel expenses | −18'513 | −16'467 | 12.4 |
| General and administrative expenses | 1'440 | −1'563 | |
| Depreciation and amortisation | −67 | 0 | |
| Services (from) / to segments | −18'502 | −14'578 | 26.9 |
| **Total operating expenses** | **−35'642** | **−32'608** | **9.3** |
| **Segment profit before tax** | **29'863** | **24'673** | **21.0** |

## Performance figures

| | First half 2019 | First half 2018 |
|---|---|---|
| Gross margin (in basis points) * | 72.2 | 71.5 |
| Cost-Income-Ratio (in per cent) ** | 59.0 | 56.8 |
| Net new money (in CHF millions) | 72 | 473 |
| Growth of net new money (in per cent) | 0.4 | 3.3 |

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

## Additional information

| | 30.06.2019 | 31.12.2018 | + / − % |
|---|---|---|---|
| Business volume (in CHF millions) | 18'309 | 18'216 | 0.5 |
| Assets under management (in CHF millions) | 16'433 | 16'350 | 0.5 |
| Loans (in CHF millions) | 1'876 | 1'866 | 0.5 |
| Employees (full-time equivalents, in positions) | 183 | 189 | −3.2 |

# Institutional Clients Segment

## Intermediary and investment fund business, asset management

The Institutional Clients Division encompasses the intermediary and investment fund business, as well as asset management services. As a result of the acquisitions made in 2018, the LLB Group now unites four investment fund management companies under one corporate roof. In its three home markets of Liechtenstein, Austria and Switzerland, it operates as a dynamic, versatile fund powerhouse. The focus lies on providing private label fund solutions. The LLB teams of experts for the care of fiduciaries, external asset managers, insurance companies and public institutions are distinguished by their holistic, partner-like client orientation.LLB Asset Management AG fulfils a central role within the LLB Group. Its award-winning, outstanding investment competence is one of the Group's great strengths. At the Refinitiv Lipper Group Awards in April 2019, LLB was named European champion in the "Overall Small Company" category.

## Business segment result

The segment profit before tax of the Institutional Clients segment rose by 35.6 percent to CHF 35.6 million. Operating income improved largely on account of the good performance of interest business from foreign currency investments. Thanks to active sales and marketing efforts, as well as the consolidation of LB(Swiss) Investment AG and Semper Constantia Privatbank AG, fees and commissions exceeded the previous year's result. Operating expenses increased in comparison with the equivalent period in the previous year due to the additional personnel in the companies taken over. Positive inflows in all business areas led to a gratifying increase in net new money inflows of CHF 1.7 billion. The business volume expanded by 10 percent to CHF 47.5 billion.

## Segment reporting

| in CHF thousands | First half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Net interest income | 10'949 | 9'156 | 19.6 |
| Expected credit losses | 0 | 637 | – 100.0 |
| Net interest income after expected credit losses | 10'949 | 9'793 | 11.8 |
| Net fee and commission income | 50'869 | 29'384 | 73.1 |
| Net trading income | 4'989 | 5'673 | – 12.0 |
| Other income | – 5 | 1 | |
| **Total operating income** | **66'803** | **44'850** | **48.9** |
| Personnel expenses | – 16'069 | – 9'948 | 61.5 |
| General and administrative expenses | 209 | – 1'561 | |
| Depreciation and amortisation | – 185 | – 27 | 586.3 |
| Services (from) / to segments | – 15'145 | – 7'047 | 114.9 |
| **Total operating expenses** | **– 31'190** | **– 18'583** | **67.8** |
| **Segment profit before tax** | **35'613** | **26'268** | **35.6** |

## Performance figures

| | First half 2019 | First half 2018 |
|---|---|---|
| Gross margin (in basis points) * | 29.1 | 32.4 |
| Cost-Income-Ratio (in per cent) ** | 50.8 | 42.0 |
| Net new money (in CHF millions) | 1'727 | 446 |
| Growth of net new money (in per cent) | 4.1 | 1.6 |

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

## Additional information

| | 30.06.2019 | 31.12.2018 | + / – % |
|---|---|---|---|
| Business volume (in CHF millions) | 47'482 | 43'007 | 10.4 |
| Assets under management (in CHF millions) | 46'945 | 42'489 | 10.5 |
| Loans (in CHF millions) | 538 | 518 | 3.8 |
| Employees (full-time equivalents, in positions) | 174 | 171 | 1.8 |

# Corporate Center Segment

## Controlling processes and risks

The Corporate Center bundles central functions within the LLB Group and supports the market-oriented divisions in conducting their activities and implementing their strategies. The focus lies on functions in the areas of communication, marketing, human resources, finance, risk and credit management, IT, trading, securities administration and payment services, corporate development, as well as legal and compliance services.

The Corporate Center of the LLB Group steers, coordinates and monitors groupwide business activities, processes and risks. It ensures the Group's corporate development and its digital transformation, as well as enhancing the efficiency and quality of the services the LLB Group delivers.

## Business segment result

Under the Corporate Center, the LLB Group reports the structural contribution from interest business, the valuation of interest rate hedging instruments and income from financial investments. Operating income rose by CHF 8.3 million to CHF 20.2 million. The increase was attributable to accounting gains with financial instruments measured at fair value on the reporting date. The valuation of interest rate hedging instruments on the reporting date resulted in lower trading income. Operating expenses increased on account of acquisition activities and the strategic expansion of personnel.

## Segment reporting

| in CHF thousands | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|
| Net interest income | 4'903 | 6'083 | −19.4 |
| Expected credit losses | 0 | 0 | |
| Net interest income after expected credit losses | 4'903 | 6'083 | −19.4 |
| Net fee and commission income | −7'906 | −3'783 | 109.0 |
| Net trading income | 12'697 | 18'769 | −32.4 |
| Net income from financial investments at fair value | 6'028 | −10'364 | |
| Share of net income of associates and joint venture | −4 | −2 | 77.5 |
| Other income | 4'523 | 1'204 | 275.7 |
| **Total operating income** | **20'241** | **11'908** | **70.0** |
| Personnel expenses | −45'901 | −39'893 | 15.1 |
| General and administrative expenses | −37'567 | −30'960 | 21.3 |
| Depreciation and amortisation | −20'182 | −14'691 | 37.4 |
| Services (from) / to segments | 60'024 | 46'304 | 29.6 |
| **Total operating expenses** | **−43'626** | **−39'240** | **11.2** |
| **Segment profit before tax** | **−23'385** | **−27'331** | **−14.4** |

## Additional information

| | 30.06.2019 | 31.12.2018 | + / − % |
|---|---|---|---|
| Employees (full-time equivalents, in positions) | 547 | 529 | 3.4 |

Consolidated interim financial statement
in our online interim financial reporting with
Excel files for your own statistics

# Consolidated interim financial statement of the LLB Group

(**unaudited**)

# Consolidated interim management report

## Income statement

In the first half of 2019, the LLB Group earned a net profit of CHF 61.1 million (first half of 2018: CHF 45.8 million). The net profit was therefore 33.3 per cent or CHF 15.3 million higher than in the equivalent period in the previous year.

Operating income increased in the first half of 2019 by 20.1 per cent to CHF 223.7 million (first half of 2018: CHF 186.3 million).

Interest income before expected credit losses rose by 7.6 per cent or CHF 5.8 million in comparison with the previous year to CHF 82.6 million (first half of 2018: CHF 76.8 million). Income from interest business with clients decreased slightly. Risk-conscious growth in mortgage lending business and lower refinancing costs were unable to compensate completely for the expected decline in earnings due to the extension of fixed interest loans at lower conditions. Thanks to higher earnings from financial investments and claims due from banks, as well as lower interest rate hedging costs, other income from interest business was significantly higher than in the previous year.

Allowances totalling net CHF 3.7 million for expected credit losses were released by the LLB Group in favour of the income statement in the first half of 2019 (first half of 2018: allocation of CHF 6.0 million).

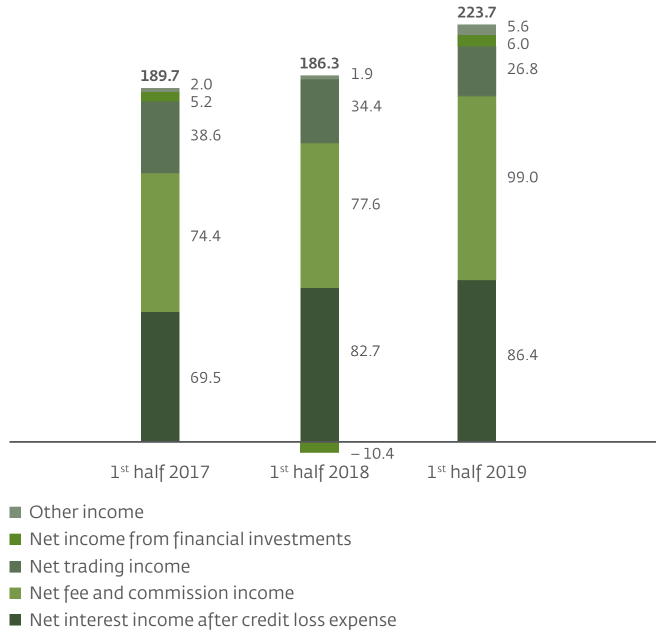
Net fee and commission income increased by 27.5 per cent or CHF 21.3 million to CHF 99.0 million (first half of 2018: CHF 77.6 million). Both intensive marketing measures, for example as undertaken with our LLB Invest products, and the acquisitions of LB(Swiss) Investment AG and Semper Constantia Privatbank AG made in the previous year, contributed to this success. Net brokerage income declined by 7.7 per cent in comparison with the previous year, due to lower stock market activity by clients.

Net trading income stood at CHF 26.8 million in the first half of 2019 (first half of 2018: CHF 34.4 million). Trading in foreign exchange, foreign notes and precious metals decreased in comparison with the previous year by 7.6 per cent to CHF 26.7 million on account of fewer market opportunities. The reporting date valuation of interest rate hedging instruments totalled CHF 0.1 million in the first half of 2019 (first half of 2018: CHF 5.5 million). The fall in valuation was attributable to the development of CHF interest rates, which fell in the first half of 2019.

Income from financial investments of CHF 6.0 million made a positive contribution to the business result (first half of 2018: minus CHF 10.4 million). The stock market development as well as lower USD and EUR interest rates led to book gains of CHF 4.5 million on the reporting date with financial investments measured at fair value through profit and loss compared with a loss of CHF 10.9 million in the first half of 2018.

At CHF 5.6 million, other income rose by CHF 3.7 million compared with the previous year. The increase was mainly attributable to changes in the value of purchase price obligations in relation to acquisitions.

**Operating income (in CHF millions)**




Operating expenses increased in the first half of 2019 by 16.1 per cent to CHF 152.2 million (first half of 2018: CHF 131.1 million).

At CHF 95.0 million, personnel expenses were 16.6 per cent or CHF 13.5 million up on the previous year (first half of 2018: CHF 81.5 million). The increase is attributable to the strategic expansion of human resources as well as the takeovers of LB(Swiss) Investment AG as well as Semper Constantia Privatbank AG in the previous year.

General and administrative expenses rose by 5.3 per cent or CHF 1.9 million to CHF 36.8 million (first half of 2018: CHF 34.9 million). The current business result contains a net release of provisions for legal and litigation risks of CHF 1.2 million.

Depreciation and amortisation increased to CHF 20.4 million (first half of 2018: CHF 14.7 million). This relates to the introduction of IFRS 16 "Leasing".

The Cost-Income-Ratio stood at 69.7 per cent (first half of 2018: 72.8 %). Without the market effects, i.e. without income from interest rate swaps and price gains from financial investments, the Cost-Income-Ratio stood at 71.2 per cent (first half of 2018: 70.7 %).

The profit attributable to the shareholders of Liechtensteinische Landesbank amounted to CHF 57.5 million (first half of 2018: CHF 42.1 million). Earnings per share stood at CHF 1.88 (first half of 2018: CHF 1.46).

## Balance sheet

In comparison with 31 December 2018, the consolidated balance sheet total increased by 1.0 per cent and amounted to CHF 23.1 billion as at 30 June 2019 (31.12.2018: CHF 22.9 billion). Loans to customers rose in total by 1.3 per cent in comparison with 31 December 2018. Mortgage loans increased by 1.0 per cent to CHF 11.2 billion.

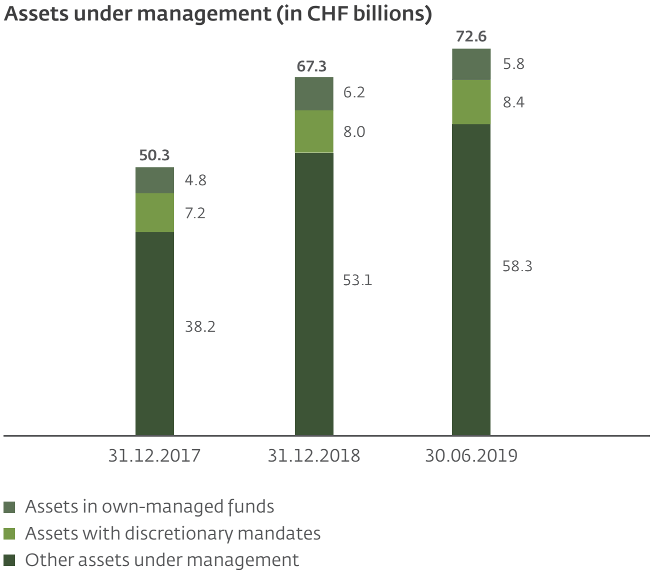
Equity attributable to the shareholders of LLB stood at CHF 1.9 billion as at 30 June 2019. The tier 1 ratio amounted to 19.0 per cent (31.12.2018: 19.0 %). The return on equity attributable to the shareholders of LLB was 6.1 per cent (first half of 2018: 4.8 %).

## Assets under management

Thanks to gratifying net new money inflows and the positive performance of the financial markets, client assets under management increased to CHF 72.6 billion (31.12.2018: CHF 67.3 billion).

The LLB Group is continuing its robust growth. Thanks to intensive sales and marketing efforts in all three market segments and all booking centres, it achieved a net new money inflow of CHF 2'004 million in the first half of 2019 (first half of 2018: CHF 1'119 million).

**Assets under management (in CHF billions)**




## Outlook

The banking industry is facing formidable challenges in the form of the difficult business environment, which is characterised by volatile financial markets, increasing regulation and the transformation of information technology.

Thanks to its focused business model, diversified earnings structure and clear StepUp2020 strategy, the LLB Group views the future with confidence. The LLB Group expects to make further operative progress and achieve a solid business result in the second half year 2019.

# Consolidated income statement
## (unaudited)

| in CHF thousands | Note | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|---|
| Interest income from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income | 1 | 112'552 | 99'244 | 13.4 |
| Interest income from financial instruments at fair value through profit and loss | 1 | 6'144 | 8'465 | −27.4 |
| Interest expenses from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income | 1 | −27'575 | −22'652 | 21.7 |
| Interest expenses at fair value through profit and loss | 1 | −8'508 | −8'280 | 2.8 |
| **Net interest income** | **1** | **82'613** | **76'777** | **7.6** |
| Expected credit losses | | 3'743 | 5'961 | −37.2 |
| **Net interest income after expected credit losses** | | **86'355** | **82'738** | **4.4** |
| Fee and commission income | 2 | 159'096 | 101'322 | 57.0 |
| Fee and commission expenses | 2 | −60'130 | −23'688 | 153.8 |
| **Net fee and commission income** | **2** | **98'966** | **77'634** | **27.5** |
| Net trading income | 3 | 26'771 | 34'379 | −22.1 |
| Net income from financial investments at fair value | 4 | 6'028 | −10'364 | |
| Share of net income of associates and joint venture | | −4 | −2 | 102.8 |
| Other income | 5 | 5'574 | 1'918 | 190.7 |
| **Total operating income** | | **223'691** | **186'304** | **20.1** |
| Personnel expenses | 6 | −95'039 | −81'490 | 16.6 |
| General and administrative expenses | 7 | −36'760 | −34'897 | 5.3 |
| Depreciation and amortisation | | −20'435 | −14'717 | 38.8 |
| **Total operating expenses** | | **−152'234** | **−131'104** | **16.1** |
| **Operating profit before tax** | | **71'458** | **55'200** | **29.5** |
| Tax expenses | 8 | −10'392 | −9'398 | 10.6 |
| **Net profit** | | **61'065** | **45'802** | **33.3** |
| Of which attributable to: | | | | |
| Shareholders of LLB | | 57'517 | 42'146 | 36.5 |
| Non-controlling interests | | 3'549 | 3'656 | −2.9 |
| **Earnings per share attributable to the shareholders of LLB** | | | | |
| Basic earnings per share (in CHF) | 9 | 1.88 | 1.46 | 28.8 |
| Diluted earnings per share (in CHF) | 9 | 1.88 | 1.46 | 28.8 |

# Consolidated statement of comprehensive income (unaudited)

| in CHF thousands | Note | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|---|
| Net profit | | 61'065 | 45'802 | 33.3 |
| **Other comprehensive income (net of tax), which can be reclassified to the income statement** | | | | |
| Foreign currency translation | | −3'047 | −624 | 388.5 |
| Changes in value of debt instruments, recognised at fair value through other comprehensive income | | 25'287 | 1'318 | |
| Reclassified (profit)/loss with debt instruments, recognised at fair value through other comprehensive income | 4 | −247 | 240 | |
| Tax effects | | −3'403 | −190 | |
| **Total other comprehensive income (net of tax), which can be reclassified to the income statement** | | **18'590** | **743** | |
| **Other comprehensive income (net of tax), which cannot be reclassified to the income statement** | | | | |
| Actuarial gains/(losses) of pension plans | | −19'876 | 10'582 | |
| Changes in value of equity instruments, recognised at fair value through other comprehensive income | | 3'757 | 505 | |
| Tax effects | | 2'300 | −1'546 | |
| **Total other comprehensive income (net of tax), which cannot be reclassified to the income statement** | | **−13'820** | **9'540** | |
| **Total other comprehensive income (after tax)** | | **4'771** | **10'284** | **−53.6** |
| **Comprehensive income for the period** | | **65'836** | **56'086** | **17.4** |
| Of which attributable to: | | | | |
| Shareholders of LLB | | 63'230 | 51'465 | 22.9 |
| Non-controlling interests | | 2'606 | 4'621 | −43.6 |

# Consolidated balance sheet
## (unaudited)

| in CHF thousands | Note | 30.06.2019 | 31.12.2018 | + / – % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | | 5'368'029 | 5'708'324 | –6.0 |
| Due from banks | | 1'888'161 | 1'611'454 | 17.2 |
| Loans | | 13'019'759 | 12'852'541 | 1.3 |
| Derivative financial instruments | | 101'070 | 197'886 | –48.9 |
| Financial investments at fair value | 10 | 2'124'609 | 1'937'057 | 9.7 |
| Non-current assets held for sale | 16 | 21'323 | 21'214 | 0.5 |
| Investment in associates and joint venture | | 30 | 30 | 1.6 |
| Property and equipment | | 119'075 | 119'943 | –0.7 |
| Right of use assets from leases | | 32'996 | | |
| Investment property | | 15'000 | 15'000 | 0.0 |
| Goodwill and other intangible assets | | 297'716 | 305'314 | –2.5 |
| Current tax assets | | 0 | 1'670 | –100.0 |
| Deferred tax assets | | 17'619 | 20'770 | –15.2 |
| Accrued income and prepaid expenses | | 55'572 | 56'868 | –2.3 |
| Other assets | | 61'525 | 44'003 | 39.8 |
| **Total assets** | | **23'122'483** | **22'892'072** | **1.0** |
| | | | | |
| **Liabilities** | | | | |
| Due to banks | | 1'329'376 | 1'509'412 | –11.9 |
| Due to customers | | 17'731'977 | 17'475'706 | 1.5 |
| Lease liabilities | | 33'096 | | |
| Derivative financial instruments | | 180'445 | 255'564 | –29.4 |
| Debt issued | 12 | 1'294'573 | 1'236'362 | 4.7 |
| Bonds issued | 13 | 150'210 | 0 | |
| Non-current liabilities held for sale | 16 | 2'311 | 2'386 | –3.1 |
| Current tax liabilities | | 17'073 | 14'373 | 18.8 |
| Deferred tax liabilities | | 33'200 | 34'257 | –3.1 |
| Accrued expenses and deferred income | | 50'949 | 51'625 | –1.3 |
| Provisions | 14 | 28'573 | 30'451 | –6.2 |
| Other liabilities | | 269'244 | 272'232 | –1.1 |
| **Total liabilities** | | **21'121'028** | **20'882'368** | **1.1** |
| | | | | |
| **Equity** | | | | |
| Share capital | | 154'000 | 154'000 | 0.0 |
| Share premium | | –22'328 | –21'157 | 5.5 |
| Treasury shares | | –14'625 | –8'195 | 78.5 |
| Retained earnings | | 1'808'260 | 1'815'053 | –0.4 |
| Other reserves | | –47'675 | –53'388 | –10.7 |
| **Total equity attributable to shareholders of LLB** | | **1'877'632** | **1'886'313** | **–0.5** |
| | | | | |
| Non-controlling interests | | 123'823 | 123'391 | 0.3 |
| | | | | |
| **Total equity** | | **2'001'455** | **2'009'705** | **–0.4** |
| | | | | |
| **Total liabilities and equity** | | **23'122'483** | **22'892'072** | **1.0** |

# Consolidated statement of changes in equity (unaudited)

| | Attributable to shareholders of LLB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| in CHF thousands | Share capital | Share premium | Treasury shares | Retained earnings | Other reserves | Total | Non-controlling interests | Total equity |
| As at 1 January 2018 | 154'000 | 23'509 | −163'886 | 1'795'561 | −53'129 | 1'756'055 | 115'224 | 1'871'279 |
| Net profit | | | | 42'146 | | 42'146 | 3'656 | 45'802 |
| Other comprehensive income | | | | | 9'319 | 9'319 | 965 | 10'284 |
| Net movements in treasury shares | | −2'097 | 5'621 | | | 3'524 | | 3'524 |
| Dividend 2017, paid 2018 | | | | −57'883 | | −57'883 | −1'826 | −59'710 |
| Increase / (Reduction) in non-controlling interests | | | | −11 | | −11 | 11 | 0 |
| **As at 30 June 2018** | **154'000** | **21'412** | **−158'265** | **1'779'812** | **−43'810** | **1'753'150** | **118'030** | **1'871'180** |
| | | | | | | | | |
| As at 1 January 2019 | 154'000 | −21'157 | −8'195 | 1'815'053 | −53'388 | 1'886'313 | 123'391 | 2'009'705 |
| Net profit | | | | 57'517 | | 57'517 | 3'549 | 61'065 |
| Other comprehensive income | | | | | 5'713 | 5'713 | −942 | 4'771 |
| Net movements in treasury shares | | −1'170 | −6'430 | | | −7'600 | | −7'600 |
| Dividend 2018, paid 2019 | | | | −64'309 | | −64'309 | −2'175 | −66'484 |
| Increase / (Reduction) in non-controlling interests | | | | | | 0 | | 0 |
| **As at 30 June 2019** | **154'000** | **−22'328** | **−14'625** | **1'808'260** | **−47'675** | **1'877'632** | **123'823** | **2'001'455** |

# Consolidated statement of cash flows

## (unaudited)

| in CHF thousands | Note | First half 2019 | First half 2018 |
|---|---|---|---|
| **Cash flow from / (used in) operating activities** | | | |
| Interest received | | 126'622 | 116'045 |
| Dividends received from financial investments at fair value | 4 | 1'485 | 500 |
| Interest paid | | −33'949 | −28'837 |
| Fees and commission received | | 163'532 | 97'086 |
| Fees and commission paid | | −63'181 | −17'364 |
| Trading income | | 35'867 | 27'460 |
| Other income | | 2'201 | 1'641 |
| Payments for personnel, general and administrative expenses | | −140'748 | −125'392 |
| Income tax paid, net of refunds | | −5'916 | −2'374 |
| Rent paid for short-term and low-value leases | | −340 | |
| Cash flow from operating activities, before changes in operating assets and liabilities | | 85'572 | 68'765 |
| Net due from / to banks | | −715'521 | −4'869 |
| Loans / due to customers | | 120'368 | 192'160 |
| Other assets | | −7'174 | −69'822 |
| Other liabilities | | −7'035 | 22'271 |
| Changes in operating assets and liabilities | | −609'362 | 139'740 |
| **Net cash flow from / (used in) operating activities** | | **−523'790** | **208'505** |

| | | | |
|---|---|---|---|
| **Cash flow from / (used in) investing activities** | | | |
| Purchase of property and equipment | | −5'794 | −12'259 |
| Disposal of property and equipment | | 0 | 3'848 |
| Purchase of other intangible assets | | −2'810 | −29'771 |
| Disposal of other intangible assets | | 76 | 0 |
| Purchase of financial investments at fair value | | −404'156 | −472'665 |
| Disposal or expiration of financial investments at fair value | | 238'087 | 220'795 |
| Acquisition of fully consolidated companies minus cash and cash equivalents | | 0 | −16'456 |
| Payment of deferred purchase price in connection with the acquisition of fully consolidated companies | | −4'256 | 0 |
| Sale of non-current assets held for sale | 16 | 1'521 | 0 |
| **Net cash flow from / (used in) investing activities** | | **−177'332** | **−306'508** |

| in CHF thousands | Note | First half 2019 | First half 2018 |
|---|---|---|---|
| **Cash flow from / (used in) financing activities** | | | |
| Purchase of treasury shares | | −9'046 | 0 |
| Disposal of treasury shares | | 0 | 5'621 |
| Dividends paid | | −64'309 | −57'883 |
| Dividends paid to non-controlling interests | | −2'175 | −1'826 |
| Repayment of lease liabilities | 11 | −2'140 | |
| Issuance of debt | 11 | 74'359 | 90'707 |
| Repayment of debt | 11 | −16'560 | −60'019 |
| Issuance of bonds | 11 | 150'194 | 0 |
| **Net cash flow from / (used in) financing activities** | | **130'323** | **−23'400** |
| Effects of foreign currency translation on cash and cash equivalents | | −28'169 | −1'419 |
| **Net increase / (decrease) in cash and cash equivalents** | | **−598'968** | **−122'821** |
| Cash and cash equivalents at beginning of the period | | 6'467'055 | 4'819'533 |
| **Cash and cash equivalents at end of the period** | | **5'868'087** | **4'696'712** |
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with central banks | | 5'368'029 | 4'229'939 |
| Due from banks (due daily) | | 500'059 | 466'774 |
| **Total cash and cash equivalents** | | **5'868'087** | **4'696'712** |

# Accounting principles (unaudited)

## 1 Basis for financial accounting

### 1.1 Basis for financial accounting

The interim financial reporting was prepared in accordance with the international accounting standard for interim financial reporting (IAS 34 "Interim Financial Reporting") and complies with international financial reporting standards (IFRS). The significant accounting and valuation methods employed in the preparation of the unaudited interim financial reporting correspond to those used in the 2018 annual report. In addition, the regulations valid since 1 January 2019 have been applied.

The unaudited interim financial reporting does not encompass all the data contained in the audited 2018 consolidated financial statement and should, therefore, be read together with the audited consolidated financial statement as at 31 December 2018. The interim financial reporting was compiled in fulfilment of obligations under stock exchange law and, in addition, is provided for information purposes.

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. If the reclassification is made in the form of a note to the income statement or balance sheet, this has no impact on the primary statements. Accordingly, no further details are provided because only the type of presentation was altered.

In the income statement a reclassification totalling CHF 2.8 million was made from the line "General and administrative expenses" to the line "Expected credit loss". For background information on the change in presentation, reference is made to the Annual Report 2018, page 136, paragraph "Reporting of impairments".

The valuation of assets and liabilities in connection with the acquisition of Semper Constantia Privatbank AG was finally completed on 14 June 2019. Consequently, the goodwill as a result of the transaction increased by CHF 0.7 million. Further information is provided in the chapter "Company acquisitions" on page 42.

### 1.2 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. These include statements regarding future developments, for the correctness of which no guarantee can be provided. They contain risks and uncertainties including, but not restricted to, future global economic conditions, exchange rates, regulatory provisions, market conditions, competitors' activities as well as other factors, which are beyond the control of the company. These assumptions 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. LLB is under no obligation to update the statements regarding future developments made in this annual report. The IFRS contains guidelines which require the LLB Group to make estimates and assumptions when preparing the consolidated financial statement. Expected credit losses, 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 14 und 15 in these consolidated interim financial statements 2019 and under Notes 13, 18, 25, 33 and in the chapter "Pension plans and other long-term benefits" in the consolidated financial statements 2018, respectively.

The LLB Group periodically reviews the actuarial assumptions and parameters used for the calculation of pension obligations. The actuarial assumptions and parameters used for the calculation of pension obligations in the 2018 annual financial statement, i.e. discount rate, future salary increase, interest credit rate and life expectancy, were adjusted accordingly in the 2019 interim financial reporting.

### 1.3 New IFRS, amendments und interpretations

New IFRS, as well as revisions and interpretations of existing IFRS, which must be applied for financial years beginning on 1 January 2019 or later, were published or in some cases came into effect.

It was determined that the new standard IFRS 16 "Leases", as well as the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" were relevant for the LLB Group for the 2019 financial year. The amendments to IFRS 9 "Financial Instruments" regarding early termination and IAS 19 "Employee Benefits" concerning changes to defined benefit plans during the reporting period were adopted in advance in 2018. The adoption of the improvements within the scope of annual improvements to the IFRS 2015 – 2017 cycle has no material influence on the LLB Group's financial statement.

- IFRS 16 "Leases" – The new standard regulates the recognition and disclosure of lease contracts. Lease contracts are understood to be contracts that convey the right to use an asset for a period of time in exchange for a consideration. All lease contracts are to be recognised in the accounts provided the option for short-term leases or low-value assets is not utilised. The entering of lease 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. If a lease is recognised, this leads to the recording of a lease liability and a right of use asset. The carrying amount corresponds to a present value. The LLB Group utilises recently introduced software to determine the amount of the present value. Lease contracts exist in the form of leases for office premises and properties, as well as for motor vehicles. These led to a balance sheet extension of around CHF 33.0 million, or around 0.1 per cent. The standard came into effect on 1 January 2019 and was then applied for the first time by the LLB Group. The simplified approach (modified retrospective method) served as a transition method, the amount of the right of use corresponded to the amount of the lease liability. No comparison information was restated. As part of the initial application, practical expedients were employed for the transition. The new IFRS 16 regulations were applied to all lease contracts, which already existed under IAS 17 "Leases". They were not applied to contracts that were not classified as leases under IAS 17. On account of their similarity, the underlying lease contracts can be combined so that in the case of the same duration, the same discount rate can be applied. Depending on the duration, the interest rates for the calculation of the lease liability ranged between 0.14 and 1.67 percent. The lessee's incremental borrowing rate of interest serves as the basis for the calculation of the right of use assets, which is specified by IFRS 16 in the case of the selection of the modified retrospective transitional application. Since the underlying lease contracts are not onerous contracts, an impairment test as part of the transition process was not considered necessary. Where possible, the contracts were classified as short-term lease relationships or low-value lease contracts, and the revaluation of the duration is premised on the existence of extension and / or termination options. The effects of the introduction of the new standard on the impairment of key figures is regarded as not being material.

- 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 it is concluded that this is not probable, the two amounts differ, as, according to IFRS, the most likely amount or expected value of the tax treatment is to be utilised. The interpretation came into effect on 1 January 2019 and has been applied for the first time by the LLB Group since this date. The interpretation is applied fully retrospectively. The application of the amendments has no major influence on the LLB Group's financial statement. There are no transitional effects. In such special cases, basically the LLB Group clarifies in advance with the tax authorities which amounts are to be used for tax purposes.

Financial years starting from 1 January 2020 or later are subject to the regulations listed in the 2018 Annual Report. The IASB issued no new standards or interpretations and the LLB Group made no reassessments as regards relevance.

### 1.4 IFRS 16 "Leases"

#### 1.4.1 Measurement

The initial measurement is made on the commencement date, the right of use asset corresponds to the lease liability. The measurement of the lease liability is based on the fixed leasing payments over the term of the lease, as well as the assessment of extension and / or termination options. Currently, there are no contracts with special contents such as variable leasing payments, purchase options or penalty payments. The calculation of the present value is based on the interest rate applying to the lease, if this is known. If this is not known, the lessee's incremental borrowing rate of interest is employed. For the calculation of the present value, the incremental borrowing rate is utilised that corresponds to the duration of the lease. In the case of short-term leases, or low-value leases, these are not recognised in the balance sheet, but rather booked directly through the income statement.

The follow-up measurement applies the acquisition cost model for the right of use asset and the amortised cost method for the lease liability. Changes in the carrying value, independent of the valuation measurement models employed, can occur when new measurements are made or the conditions of the lease change. These principally occur at the LLB Group as a result of the revaluation of an extension and / or termination option, or on account of a change in the amount to be paid periodically. If modifications lead to a new lease, which is to be measured separately from the existing lease, the discount interest rate is retained for the original lease and a new discount rate is determined for the separate lease. If changes do not lead to a new lease, for the effective time point of the change, a new discount interest rate for the remaining term of the lease is determined on the basis of a calculation of the duration of the lease.

#### 1.4.2 Disclosure

The increase in the obligations from operating leases reported according to IAS 17 of CHF 15.5 million to CHF 33.0 million as an initial carrying value for leases under IFRS 16 is attributable largely to the revaluation of run-time options for lease contracts valid during the transitional period.

### 1.5 Bonds issued

A bond issue was made on 27 May 2019. These bonds are recognised at amortised cost.

Further information is provides in Note 13 "Bonds issued".

## 2 Changes to the scope of consolidation

In the first half of 2019 no changes occurred in the scope of consolidation.

A 30 per cent stake in Gain Capital Management S.A.R.L., a company domiciled in Luxembourg, was purchased with a value of EUR thousands 3.6. The company has the status of an associated company with accounting according to the equity method.

## 3 Foreign currency translation

| Reporting date rate | 30.06.2019 | 31.12.2018 |
|---|---|---|
| 1 USD | 0.9760 | 0.9866 |
| 1 EUR | 1.1095 | 1.1282 |

| Average rate | First half 2019 | First half 2018 |
|---|---|---|
| 1 USD | 0.9958 | 0.9680 |
| 1 EUR | 1.1270 | 1.1661 |

## 4 Risk management

Within the scope of its operative activity, the LLB Group is subject to financial risks such as market, credit, liquidity and refinancing risks, as well as operational risks. Only qualitative disclosures regarding credit risks are provided in the 2019 interim financial reporting. For more detailed risk information, we refer to the risk management information in the 2018 Annual Report.

With regard to the value of its absolute loans, the credit portfolio of the LLB Group has not changed materially during the first half of 2019. In the case of stage 1 and stage 2 loans, a slight decrease in expected credit losses occurred. Stage 3 positions made a significant contribution to the positive result thanks to various measures that were implemented by the Recovery Management Department. The contribution from expected credit losses over all positions subject to risks is reported in the consolidated income statement and totals CHF 3.7 million, of which CHF 2.7 million is attributable to stage 3 loans.

## 5 Events after the balance sheet date

LLB Verwaltung (Switzerland) AG has reached a settlement in connection with the US business of the former Liechtensteinische Landesbank (Switzerland) AG and signed a non-prosecution agreement. It has undertaken to make a payment of USD 10.7 million. The payment is covered by provisions. The release of provisions that are no longer required will have a positive effect before tax of around CHF 4 million on the business result in the second half of 2019.

# Segment reporting (unaudited)

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, 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.

## First half of 2018

| in CHF thousands | Retail & Corporate Banking | Private Banking | Institutional Clients | Corporate Center | Total Group |
|---|---|---|---|---|---|
| Net interest income | 44'841 | 16'698 | 9'156 | 6'083 | 76'777 |
| Expected credit losses | 5'434 | −110 | 637 | 0 | 5'961 |
| Net interest income after expected credit losses | 50'274 | 16'588 | 9'793 | 6'083 | 82'738 |
| Net fee and commission income | 15'737 | 36'296 | 29'384 | −3'783 | 77'634 |
| Net trading income | 5'541 | 4'396 | 5'673 | 18'769 | 34'379 |
| Net income from financial investments at fair value | 0 | 0 | 0 | −10'364 | −10'364 |
| Share of net income of joint venture | 0 | 0 | 0 | −2 | −2 |
| Other income | 711 | 2 | 1 | 1'204 | 1'918 |
| **Total operating income*** | **72'264** | **57'281** | **44'850** | **11'908** | **186'304** |
| Personnel expenses | −15'183 | −16'467 | −9'948 | −39'893 | −81'490 |
| General and administrative expenses | −812 | −1'563 | −1'561 | −30'960 | −34'897 |
| Depreciation and amortisation | 0 | 0 | −27 | −14'691 | −14'717 |
| Services (from) / to segments | −24'678 | −14'578 | −7'047 | 46'304 | 0 |
| **Total operating expenses** | **−40'673** | **−32'608** | **−18'583** | **−39'240** | **−131'104** |
| **Operating profit before tax** | **31'590** | **24'673** | **26'268** | **−27'331** | **55'200** |
| Tax expenses | | | | | −9'398 |
| **Net profit** | | | | | **45'802** |

* There were no substantial earnings generated between the segments so that income between the segments is not material.

## First half of 2019

| in CHF thousands | Retail & Corporate Banking | Private Banking | Institutional Clients | Corporate Center | Total Group |
|---|---|---|---|---|---|
| Net interest income | 45'575 | 21'187 | 10'949 | 4'903 | 82'613 |
| Expected credit losses | 3'278 | 464 | 0 | 0 | 3'743 |
| Net interest income after expected credit losses | 48'853 | 21'651 | 10'949 | 4'903 | 86'355 |
| Net fee and commission income | 16'117 | 39'886 | 50'869 | −7'906 | 98'966 |
| Net trading income | 5'118 | 3'967 | 4'989 | 12'697 | 26'771 |
| Net income from financial investments at fair value | 0 | 0 | 0 | 6'028 | 6'028 |
| Share of net income of associates and joint venture | 0 | 0 | 0 | −4 | −4 |
| Other income | 1'055 | 1 | −5 | 4'523 | 5'574 |
| **Total operating income*** | **71'142** | **65'505** | **66'803** | **20'241** | **223'691** |
| Personnel expenses | −14'555 | −18'513 | −16'069 | −45'901 | −95'039 |
| General and administrative expenses | −842 | 1'440 | 209 | −37'567 | −36'760 |
| Depreciation and amortisation | 0 | −67 | −185 | −20'182 | −20'435 |
| Services (from) / to segments | −26'378 | −18'502 | −15'145 | 60'024 | 0 |
| **Total operating expenses** | **−41'775** | **−35'642** | **−31'190** | **−43'626** | **−152'234** |
| **Operating profit before tax** | **29'367** | **29'863** | **35'613** | **−23'385** | **71'458** |
| Tax expenses | | | | | −10'392 |
| **Net profit** | | | | | **61'065** |

* There were no substantial earnings generated between the segments so that income between the segments is not material.

# Notes to the consolidated income statement (unaudited)

## 1 Net interest income

| in CHF thousands | First Half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Interest income from financial instruments measured at amortised cost | | | |
| Interest income from banks | 10'035 | 9'999 | 0.4 |
| Interest income from loans | 84'983 | 83'536 | 1.7 |
| Loan commissions with the character of interest | 1'542 | 1'408 | 9.4 |
| Interest income from financial liabilities | 9'590 | 4'300 | 123.0 |
| **Total interest income from financial instruments measured at amortised cost** | **106'150** | **99'244** | **7.0** |
| Interest income from financial instruments, recognised at fair value through other comprehensive income | | | |
| Interest income from debt instruments | 6'402 | 0 | |
| **Total interest income from financial instruments, recognised at fair value through other comprehensive income** | **6'402** | **0** | |
| Interest income from financial instruments at fair value through profit and loss | | | |
| Interest income from debt instruments | 4'370 | 7'178 | – 39.1 |
| Interest rate derivatives | 1'774 | 1'287 | 37.9 |
| **Total interest income from financial instruments at fair value through profit and loss** | **6'144** | **8'465** | **– 27.4** |
| **Total interest income** | **118'695** | **107'709** | **10.2** |
| Interest expenses from financial instruments measured at amortised cost | | | |
| Interest expenses on amounts due to banks | – 3'110 | – 374 | 731.2 |
| Interest expenses on amounts due to customers | – 11'598 | – 7'662 | 51.4 |
| Interest income from financial assets | – 7'511 | – 8'505 | – 11.7 |
| Interest expenses on lease liabilities | – 172 | | |
| Interest expenses on debt issued | – 5'169 | – 5'822 | – 11.2 |
| Interest expenses on bonds issued | – 14 | 0 | |
| **Total interest expenses from financial instruments measured at amortised cost** | **– 27'575** | **– 22'363** | **23.3** |
| Interest expenses from financial instruments, recognised at fair value through other comprehensive income | | | |
| Interest expenses from debt instruments | 0 | – 289 | – 100.0 |
| **Total interest expenses from financial instruments, recognised at fair value through other comprehensive income** | **0** | **– 289** | **– 100.0** |
| Interest expenses from financial instruments measured at fair value | | | |
| Interest rate derivatives | – 8'508 | – 8'280 | 2.8 |
| **Total interest expenses from financial instruments measured at fair value** | **– 8'508** | **– 8'280** | **2.8** |
| **Total interest expenses** | **– 36'083** | **– 30'932** | **16.7** |
| **Total net interest income** | **82'613** | **76'777** | **7.6** |

## 2 Net fee and commission income

| in CHF thousands | First half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Brokerage fees | 23'831 | 23'912 | – 0.3 |
| Custody fees | 21'916 | 15'859 | 38.2 |
| Advisory and management fees | 26'434 | 22'798 | 15.9 |
| Investment fund fees | 68'807 | 25'406 | 170.8 |
| Credit-related fees and commissions | 296 | 336 | – 11.9 |
| Commission income from other services | 17'811 | 13'010 | 36.9 |
| **Total fee and commission income** | **159'096** | **101'322** | **57.0** |
| Brokerage fees paid | – 5'853 | – 4'426 | 32.3 |
| Other fee and commission expenses | – 54'276 | – 19'262 | 181.8 |
| **Total fee and commission expenses** | **– 60'130** | **– 23'688** | **153.8** |
| **Total net fee and commission income** | **98'966** | **77'634** | **27.5** |

LLB and its subsidiaries offer clients an all-in fee for various services. The all-in fee is recognised in the line "Advisory and management fees". The following table shows what share of the income position the all-in fee has and what proportion of which services is included in it.

| in CHF thousands | First half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Total all-in fees | 14'302 | 10'975 | 30.3 |
| of which brokerage | 6'646 | 5'176 | 28.4 |
| of which securities administration | 2'291 | 1'941 | 18.1 |
| of which asset management | 5'364 | 3'858 | 39.1 |

## 3 Net trading income

| in CHF thousands | First half 2019 | First half 2018 | + / – % |
|---|---|---|---|
| Foreign exchange trading | 26'215 | 28'645 | – 8.5 |
| Foreign note trading | – 200 | – 176 | 13.6 |
| Precious metals trading | 649 | 401 | 61.8 |
| Interest rate instruments * | 107 | 5'508 | – 98.1 |
| **Total net trading income** | **26'771** | **34'379** | **– 22.1** |

* 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 | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|
| **Financial investments at fair value through profit and loss** | | | |
| Dividend income | 285 | 265 | 7.3 |
| Price gains* | 4'327 | −10'624 | |
| **Total net income from financial investments at fair value through profit and loss** | **4'611** | **−10'359** | |
| | | | |
| **Financial investments, recognised at fair value through other comprehensive income** | | | |
| Dividend income | 1'200 | 235 | 410.0 |
| of which from financial investments held on the balance sheet date | 1'200 | 235 | 410.0 |
| of which from financial investments sold during the reporting period | 0 | 0 | |
| Realised gain | 247 | −240 | |
| Expected credit loss on financial investments | −30 | 0 | |
| **Total financial investments, recognised at fair value through other comprehensive income** | **1'417** | **−5** | |
| | | | |
| **Total net income from financial investments at fair value** | **6'028** | **−10'364** | |

* The realised price gains for the first half of 2019 amounted to CHF thousands minus 4'054 (previous year: minus CHF thousands 684).

## 5 Other income

| in CHF thousands | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|
| Net income from properties | 686 | 731 | −6.1 |
| Adjustments on purchase price obligations from acquisitions | 2'813 | 0 | |
| Non-period-related and non-operating income | 458 | 89 | 415.4 |
| Realised profits from sales of tangible assets* | 554 | 276 | 100.5 |
| Income from various services | 1'063 | 822 | 29.3 |
| **Total other income** | **5'574** | **1'918** | **190.7** |

* Contains income from sales of properties as well as income from non-current assets held for sale.

## 6 Personnel expenses

| in CHF thousands | First half 2019 | First half 2018 | +/−% |
|---|---|---|---|
| Salaries | −73'195 | −63'989 | 14.4 |
| Pension and other post-employment benefit plans | −9'342 | −9'019 | 3.6 |
| Other social contributions | −8'943 | −5'962 | 50.0 |
| Training costs | −823 | −677 | 21.5 |
| Other personnel expenses | −2'737 | −1'843 | 48.5 |
| **Total personnel expenses** | **−95'039** | **−81'490** | **16.6** |

## 7 General and administrative expenses

| in CHF thousands | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|
| Occupancy * | −3'884 | −4'491 | −13.5 |
| Expenses for IT, machinery and other equipment * | −12'249 | −10'700 | 14.5 |
| Information and communication expenses | −9'445 | −7'197 | 31.2 |
| Marketing and public relations | −4'786 | −4'156 | 15.2 |
| Consulting and audit fees | −1'449 | −3'061 | −52.7 |
| Capital tax and other tax | −251 | 141 | |
| Provisions for legal and litigation risks | 1'084 | 108 | 907.5 |
| Material costs | −634 | −639 | −0.7 |
| Legal and representation costs | −495 | −874 | −43.4 |
| Litigation costs | −125 | −165 | −24.4 |
| Supervision fees | −468 | −600 | −22.0 |
| Contributions to resolution funds | −1'255 | −1'250 | 0.3 |
| Other general and administrative expenses | −2'803 | −2'012 | 39.3 |
| **Total general and administrative expenses** | **−36'760** | **−34'897** | **5.3** |

* In 2019 contains only expenses from leases, which were classified as short term and low value. The total rental expenses are contained in 2018.

## 8 Tax expenses

| in CHF thousands | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|
| Current taxes | −10'392 | −8'236 | 26.2 |
| Deferred taxes | 0 | −1'162 | −100.0 |
| **Total tax expenses** | **−10'392** | **−9'398** | **10.6** |

## 9 Earnings per share

| | First half 2019 | First half 2018 | + / − % |
|---|---|---|---|
| Net profit attributable to the shareholders of LLB (in CHF thousands) | 57'517 | 42'146 | 36.5 |
| Weighted average shares outstanding | 30'628'215 | 28'913'975 | 5.9 |
| **Basic earnings per share (in CHF)** | **1.88** | **1.46** | **28.8** |
| Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands) | 57'517 | 42'146 | 36.5 |
| Weighted average shares outstanding for diluted earnings per share | 30'628'215 | 28'913'975 | 5.9 |
| **Diluted earnings per share (in CHF)** | **1.88** | **1.46** | **28.8** |

# Notes to the consolidated balance sheet and off-balance sheet transactions (unaudited)

## 10 Financial investments at fair value

| in CHF thousands | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| **Financial investments at fair value through profit and loss** | | | |
| **Debt instruments** | | | |
| listed | 573'972 | 635'336 | −9.7 |
| unlisted | 37'808 | 63'328 | −40.3 |
| **Total debt instruments** | **611'780** | **698'664** | **−12.4** |
| **Equity instruments** | | | |
| listed | 118 | 340 | −65.3 |
| unlisted | 7'440 | 6'217 | 19.7 |
| **Total equity instruments** | **7'558** | **6'558** | **15.3** |
| **Total financial investments at fair value through profit and loss** | **619'338** | **705'222** | **−12.2** |
| **Financial investments, recognised at fair value through other comprehensive income** | | | |
| **Debt instruments** | | | |
| listed | 1'462'190 | 1'207'796 | 21.1 |
| unlisted | 0 | 0 | |
| **Total debt instruments** | **1'462'190** | **1'207'796** | **21.1** |
| **Equity instruments** | | | |
| listed | 14'937 | 0 | |
| unlisted | 28'143 | 24'039 | 17.1 |
| **Total equity instruments** | **43'081** | **24'039** | **79.2** |
| **Total financial investments, recognised at fair value through other comprehensive income** | **1'505'270** | **1'231'834** | **22.2** |
| **Total financial investments at fair value** | **2'124'609** | **1'937'057** | **9.7** |

The equity instruments recognised at fair value through other comprehensive income consist of strategic investments of an infrastructure nature, which are not exchange-listed, as well as various instruments of the Swiss Market Index (SMI). Short-term profit-taking is not the focus with equity instruments recognised at fair value through other comprehensive income, rather they represent a long-term position, which pursues the collection of dividends and a long-term appreciation in value.

## 11 Changes in financial liabilities arising from financing activity

| | | | Non-cash changes | | | | |
|---|---|---|---|---|---|---|---|
| in CHF thousands | 01.01.2018 | Cash changes | Changes in scope of consolidation | Changes in exchange rates | Changes in fair value | Other changes | 30.06.2018 |
| Issuance / (Repayment) of medium-term notes | 286'014 | −45'812 | 0 | −7 | 0 | −228 | 239'967 |
| Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions | 883'014 | 76'500 | 0 | 0 | 0 | 62 | 959'575 |
| **Total liabilities from financing activities** | **1'169'027** | **30'688** | **0** | **−7** | **0** | **−166** | **1'199'542** |

| | | | Non-cash changes | | | | |
|---|---|---|---|---|---|---|---|
| in CHF thousands | 01.01.2019 | Cash changes | Changes in scope of consolidation | Changes in exchange rates | Changes in fair value | Other changes | 30.06.2019 |
| Issuance / (Repayment) of medium-term notes | 242'147 | −5'201 | | 0 | | 351 | 237'297 |
| Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions | 994'215 | 63'000 | | | | 61 | 1'057'276 |
| Lease liabilities | 33'008 | −2'140 | | −251 | | 2'480 | 33'096 |
| Issuance / (Repayment) of bonds issued | 0 | 150'194 | | | | 17 | 150'210 |
| **Total liabilities from financing activities** | **1'269'370** | **205'852** | **0** | **−251** | **0** | **2'909** | **1'477'880** |

## 12 Debt issued

| in CHF thousands | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| Medium-term notes * | 237'297 | 242'147 | −2.0 |
| Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions ** | 1'057'276 | 994'215 | 6.3 |
| **Total debt issued** | **1'294'573** | **1'236'362** | **4.7** |

* The average interest rate was 0.50 per cent as at 30 June 2019 and 0.56 per cent as at 31 December 2018.
** The average interest rate was 0.94 per cent as at 30 June 2019 and 0.98 per cent as at 31 December 2018.

## 13 Bonds issued

| | | | | | | | in CHF thousands | |
|---|---|---|---|---|---|---|---|---|
| Year issued | Name | ISIN | Currency | Maturity | Effective annual interest rate in % | Nominal interest rate in % | Nominal value | 30.06.2019 |
| 2019 | Liechtensteinische Landesbank AG 0.125 % Senior Preferred Anleihe 2019 – 2026 | CH0419041204 | CHF | 28.05.2026 | 0.106 % | 0.125 % | 150'000 | 150'210 |

## 14 Provisions

| in CHF thousands | Provisions for legal and litigation risks | Provisions for other business risks and restructuring | Total 2019 | Total 2018 |
|---|---|---|---|---|
| As at 1 January | 21'917 | 8'534 | 30'451 | 30'903 |
| Additions from changes to scope of consolidation | 0 | 0 | 0 | 154 |
| Provisions applied | −1'094 | −299 | −1'393 | −2'703 |
| Increase in provisions recognised in the income statement | 4'640 | 1'096 | 5'736 | 5'244 |
| Decrease in provisions recognised in the income statement | −5'828 | −367 | −6'195 | −3'146 |
| Changes due to foreign exchange differences | 0 | −25 | −25 | 0 |
| **As at 30 June 2019 / 31 December 2018** | **19'635** | **8'938** | **28'573** | **30'451** |

**Provisions for legal and litigation risks**

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 30 June 2019, 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 (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG is responsible for the proceedings. 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 likely as at 30 June 2019. On the basis of the calculation criteria of the non-prosecution agreement concluded between LLB AG, Vaduz, and the US authorities, as well as payments made by other banks, and knowledge gained during the negotiations, the provision was reduced as at 30 June 2019 by a total of CHF 5.5 million.

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. LLB Verwaltung (Switzerland) AG has lodged an appeal against this first instance ruling. On the basis of the first instance ruling and the non-suspensive effect of the 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 in 2017.

In March 2019, the Court of Appeal in London reached a verdict concerning the appeal of LLB Verwaltung (Switzerland) AG. The Court of Appeal rejected the appeal of LLB Verwaltung (Switzerland) AG in regard to its own liability. A provision of CHF 4.3 million was set aside per 30 June 2019 for additional costs with the proceedings so far. LLB Verwaltung (Switzerland) AG has decided not to initiate any further legal steps.

LLB Verwaltung (Switzerland) AG will make a claim for compensation of damages to the insurance company.

**Provisions for other business risks and restructuring**

LLB (Österreich) AG will introduce the Avaloq banking software package as at 1 January 2020. The service agreement for the use of the existing software can only be terminated by either party from the end of 2021 at the earliest. A provision amounting to CHF 3.9 million was allocated as at 31 December 2018 for the service fees to be paid for the years 2020 and 2021 even though the software will not be used. Management continues to regard these as adequate.

The provisions for restructuring relate to the LLB Group's StepUp2020 strategy announced in October 2015. Restructuring provisions amounting to CHF 1.6 million were recognised per 30 June 2019 for costs relating to the strategy in connection with refurbishment and restoration work, as well as expenses for social plans for employees of LLB (Österreich) AG.

## 15 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, which possess a fair value and are eligible, are classified in one of the three following fair value hierarchy levels:

### 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. Valuation models or methods having non-observable input factors are utilised for 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, or uses the fair values of third parties, 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 input factors:

| | Valuation model | Inputs | Significant, non-observable inputs |
|---|---|---|---|
| **Level 2** | | | |
| Derivative financial instruments | Option models | Underlying assets of future contracts | |
| Own investment funds | Market to model | Market prices of underlying assets | |
| Equities | Market to model | Market prices of underlying assets | |
| Due from banks | Present value calculation | Market price of congruent LIBOR interest rates | |
| Due to banks | Present value calculation | Market price of congruent LIBOR interest rates | |
| Loans | Present value calculation | Market price of congruent LIBOR interest rates | |
| Due to customers | Present value calculation | Market price of congruent LIBOR interest rates | |
| Debt issued | Present value calculation | Market 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, recognised at fair value through other comprehensive income | Market to model | Audited financial statements | Illiquidity, special microeconomic 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 30 June 2019, 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 first half of 2019, there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

| in CHF thousands | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| **Level 1** | | | |
| Financial investments at fair value through profit and loss | 574'090 | 635'676 | −9.7 |
| Financial investments, recognised at fair value through other comprehensive income | 1'477'127 | 1'207'796 | 22.3 |
| **Total financial instruments at fair value** | **2'051'217** | **1'843'472** | **11.3** |
| Cash and balances with central banks | 5'368'029 | 5'708'324 | −6.0 |
| **Total financial instruments not at fair value** | **5'368'029** | **5'708'324** | **−6.0** |
| **Total Level 1** | **7'419'246** | **7'551'796** | **−1.8** |
| **Level 2** | | | |
| Derivative financial instruments | 101'070 | 197'886 | −48.9 |
| of which for hedging purpose | 3'387 | 2'071 | 63.5 |
| Financial investments at fair value through profit and loss | 45'248 | 69'546 | −34.9 |
| **Total financial instruments at fair value** | **146'318** | **267'431** | **−45.3** |
| Due from banks | 1'888'205 | 1'617'123 | 16.8 |
| Loans | 13'622'832 | 13'391'601 | 1.7 |
| Accrued income and prepaid expenses | 55'572 | 56'868 | −2.3 |
| **Total financial instruments not at fair value** | **15'566'609** | **15'065'592** | **3.3** |
| **Total Level 2** | **15'712'927** | **15'333'023** | **2.5** |
| **Level 3** | | | |
| Financial investments, recognised at fair value through other comprehensive income | 28'143 | 24'039 | 17.1 |
| **Total financial instruments at fair value** | **28'143** | **24'039** | **17.1** |
| **Total financial instruments not at fair value** | **0** | **0** | |
| Investment property | 15'000 | 15'000 | 0.0 |
| Non-current assets held for sale | 21'323 | 21'214 | |
| **Total other assets at fair value** | **36'323** | **36'214** | **0.3** |
| **Total Level 3** | **64'466** | **60'253** | **7.0** |
| **Total assets** | **23'196'639** | **22'945'072** | **1.1** |

| in CHF thousands | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| **Level 1** | | | |
| **Total financial instruments at fair value** | **0** | **0** | |
| Bonds issued | 152'792 | 0 | |
| **Total financial instruments not at fair value** | **152'792** | **0** | |
| **Total Level 1** | **152'792** | **0** | |
| **Level 2** | | | |
| Derivative financial instruments | 180'445 | 255'564 | −29.4 |
| of which for hedging purpose | 23'773 | 7'687 | 209.3 |
| **Total financial instruments at fair value** | **180'445** | **255'564** | **−29.4** |
| Due to banks | 1'332'563 | 1'509'905 | −11.7 |
| Due to customers | 17'836'686 | 17'540'159 | 1.7 |
| Debt issued | 1'355'354 | 1'280'606 | 5.8 |
| Accrued expenses and deferred income | 50'949 | 51'625 | −1.3 |
| **Total financial instruments not at fair value** | **20'575'552** | **20'382'294** | **0.9** |
| **Total Level 2** | **20'755'997** | **20'637'858** | **0.6** |
| **Level 3** | | | |
| Non-current liabilities held for sale | 2'311 | 2'386 | −3.1 |
| **Total other liabilities at fair value** | **2'311** | **2'386** | **−3.1** |
| **Total Level 3** | **2'311** | **2'386** | **−3.1** |
| **Total liabilities** | **20'911'100** | **20'640'244** | **1.3** |

### Measurement of assets and liabilities, classified as Level 3

Financial investments recognised at fair value through other comprehensive income increased by CHF 4.1 million in the first half of 2019. This rise is purely the result of an increase in the fair value of the investments.

There were no value changes with investment property. Accordingly, there was no impact on the income statement.

The change in value with non-current assets held for sale was caused by the classification of properties as available for sale and their subsequent sale. The sale of one property generated a profit of CHF 0.6 million; the corresponding disposal of a property valued at CHF 0.9 million was offset by the purchase of another with a carrying value of CHF 0.9 million. The profit was recognised in the income statement under other income. The change in value between the current and comparison periods therefore relates to changes in the portfolio. The value was also affected slightly by exchange rate fluctuations between the euro and the Swiss franc.

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. All level 3 positions were immaterial, accordingly a full disclosure of level 3 positions was regarded as unnecessary.

### Financial investments measured at fair value through other comprehensive income

The financial investments consist of non-listed shares in companies of an infrastructure nature which are required to operate a bank. Based on the current company data, these are periodically revalued by the companies themselves or by third parties utilising valuation models.

### 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.

Investment properties do not diverge to highest and best use.

### Non-current assets and liabilities held for sale

Non-current assets held for sale contain utilised bank branches and rental apartments, as well as wholly-owned unused properties and a company that administers rental apartments (see Note 16 "Non-current assets and liabilities held for sale"). The process on which the valuation is based is the same one as for investment properties, i.e. the fair value assessment is made solely by third parties. The reported value of these assets and liabilities corresponds to the fair value minus selling expenses.

The liabilities relate to the management company.

### Financial instruments 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 disclosed.

The following table shows this comparison only for positions which are 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.

| | 30.06.2019 | | 31.12.2018 | |
|---|---|---|---|---|
| in CHF thousands | Book amount | Fair value | Book amount | Fair value |
| **Assets** | | | | |
| Cash and balances with central banks | 5'368'029 | 5'368'029 | 5'708'324 | 5'708'324 |
| Due from banks | 1'888'161 | 1'888'205 | 1'611'454 | 1'617'123 |
| Loans | 13'019'759 | 13'622'832 | 12'852'541 | 13'391'601 |
| Accrued income and prepaid expenses | 55'572 | 55'572 | 56'868 | 56'868 |
| **Liabilities** | | | | |
| Due to banks | 1'329'376 | 1'332'563 | 1'509'412 | 1'509'905 |
| Due to customers | 17'731'977 | 17'836'686 | 17'475'706 | 17'540'159 |
| Debt issued | 1'294'573 | 1'355'354 | 1'236'362 | 1'280'606 |
| Bonds issued | 150'210 | 152'792 | 0 | 0 |
| Accrued expenses and deferred income | 50'949 | 50'949 | 51'625 | 51'625 |

## 16 Non-current assets and liabilities held for sale

Properties, which are wholly owned by individual Group companies and are available for immediate disposal, encompass utilised bank branches and rental apartments, as well as unused properties. In the first half of 2019 a property was sold at a profit of CHF 0.6 million, the carrying value amounted to CHF 0.9 million. The sale of a second property was delayed and will probably now take place in the third quarter of 2019. Some offers have been received or initial sales discussions are being been held for other properties. The balance sheet value of properties to be sold in the third quarter totals CHF 1.2 million. A profit on sales of around CHF 0.9 million is expected.

Furthermore, a company, which manages rental apartments, that is not wholly owned is also designated for immediate sale.

The net balance sheet value of all assets totals CHF 19.0 million.

## 17 Off-balance sheet transactions

| in CHF thousands | 30.06.2019 | 31.12.2018 | +/−% |
|---|---|---|---|
| Contingent liabilities | 103'107 | 95'503 | 8.0 |
| Credit risks | 504'614 | 484'292 | 4.2 |
| Contract volumes of derivative financial instruments | 16'437'667 | 17'951'047 | −8.4 |
| Fiduciary transactions | 629'935 | 513'363 | 22.7 |
| 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 | 421'270 | 582'184 | −27.6 |

# Company acquisitions (unaudited)

## Semper Constantia Privatbank AG

As at 4 July 2018, LLB acquired 100 per cent of Semper Constantia Privatbank AG (Semper Constantia) with its registered office in Vienna. The acquisition was made within the scope of a share deal with the shareholders, the Haselsteiner Familien-Privatstiftung, grosso Holding Gesellschaft mbH and the former management of Semper Constantia. The provisional valuation was reported in the 2018 Annual Report. In accordance with IFRS 3 "Business Combinations" it is possible within a period of one year to adjust the provisional valuation to the final valuation. The final assessment of the valuation of a client loan, of which the market value was not known at the end of the year, was completed on 14 June 2019. The final value is reported in the 2019 interim financial reporting, which takes into consideration only important new information in comparison with the provisional valuation (see 2018 Annual Report, pages 188 to 190).

In comparison with the 2018 Annual Report, current tax obligations have changed, which has led to an adjustment of the assumed liabilities and therefore also to the following positions.

| Acquired net assets | in CHF thousands |
|---|---|
| Cash and balances with central banks | 923'871 |
| Due from banks | 162'122 |
| Loans | 215'978 |
| Active derivative financial instruments | 20'763 |
| Financial investments | 162'139 |
| Other intangible assets | 71'271 |
| Equipment | 7'650 |
| Current tax claims | 214 |
| Deferred tax assets | 25 |
| Accrued income and prepaid expenses | 1'296 |
| Other assets | 1'963 |
| **Acquired assets** | **1'567'292** |
| Due to banks | 47'092 |
| Due to customers | 1'325'366 |
| Passive derivative financial instruments | 19'392 |
| Current tax liabilities | 1'425 |
| Deferred tax liabilities | 17'924 |
| Accrued expenses and deferred income | 2'983 |
| Provisions | 158 |
| Other liabilities | 30'764 |
| **Assumed liabilities** | **1'445'103** |
| **Acquired net assets** | **122'189** |
| **Total purchase price** | **224'256** |
| **Goodwill** | **103'146** |
| **Cash inflow from acquisition** | **1'019'631** |

The purchase price for Semper Constantia amounted to CHF 224.3 million as at 4 July 2018. This sum includes an earn-out obligation totalling CHF 49.0 million effective as at 30 June 2019, which will be paid out in the second half of 2019.

The final valuation of the purchase of Semper Constantia Privatbank AG means that the goodwill has increased by CHF 0.7 million. Since the acquired net assets contained minorities, the goodwill does not correspond to the difference between the total purchase price and the acquired net assets.

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