

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.

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 provided in Note 13 "Bonds issued".

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

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^o	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

^o 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^o	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

^o 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 ^o	-3'884	-4'491	-13.5
Expenses for IT, machinery and other equipment ^o	-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

^o 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

in CHF thousands	01.01.2018	Cash changes	Non-cash changes				30.06.2018
			Changes in scope of consolidation	Changes in exchange rates	Changes in fair value	Other changes	
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

in CHF thousands	01.01.2019	Cash changes	Non-cash changes				30.06.2019
			Changes in scope of consolidation	Changes in exchange rates	Changes in fair value	Other changes	
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

Year issued	Name	ISIN	Currency	Maturity	Effective annual interest rate in %	Nominal interest rate in %	in CHF thousands	
							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 micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property
Non-current assets held for sale	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of financial and non-financial assets and liabilities of the LLB Group within the fair value hierarchy. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As at 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.

in CHF thousands	30.06.2019		31.12.2018	
	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 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.

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.

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