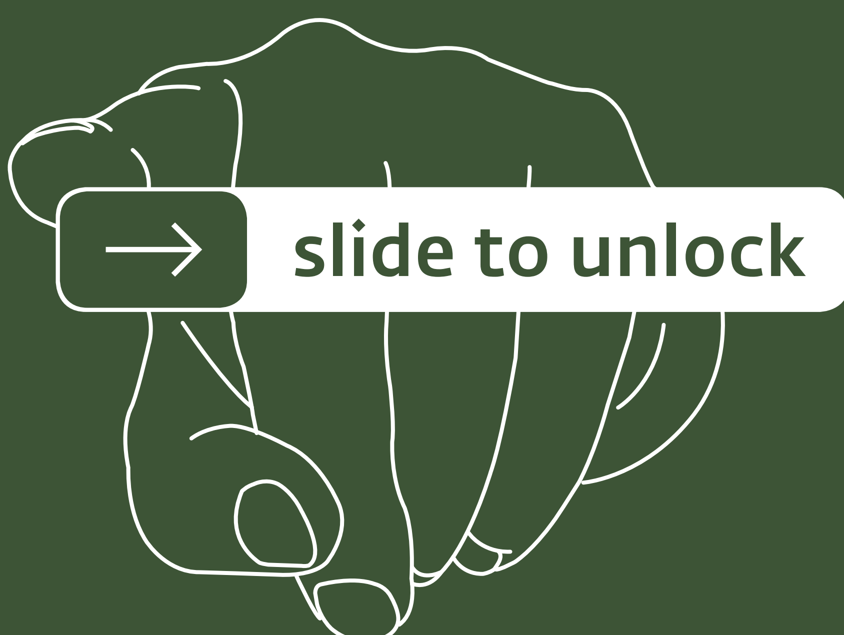
Liechtensteinische Landesbank 1861

Tradition meets Innovation.



155th Annual Report 2016

ar2016.llb.li

The LLB Group in profile

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

First bank in Liechtenstein
founded in 1861

Moody's rating
Aa2

Three banks:
Liechtenstein, Switzerland and Austria

Two competence centres:
LLB Asset Management and LLB Fund Services

Three high-earning market divisions

34.8 % Retail & Corporate Banking

26.8 % Private Banking

38.4 % Institutional Clients

Diversified income structure

44.7 % Investment business

12.9 % Trading business

42.4 % Interest business

Outstanding investment competence

Umbrella Fund Award
2013, 2014, 2015, 2016

German Fund Prize 2015, 2016

FUCHS Performance Project II 2015, 2016

Lipper Fund Awards – Switzerland 2014

Top employer 2016

SWISS
ARBEIT
GEBER
AWARD

Information for shareholders

LLB share

Security number		3019524
ISIN		LI0030195247
Listing		SIX Swiss Exchange
Ticker symbols	Bloomberg	LLB SW
	Reuters	LLB.S
	Telekurs	LLB

Capital structure

	31.12.2016	31.12.2015	+ / – %
Share capital	154'000'000	154'000'000	0.0
Total bearer shares issued	30'800'000	30'800'000	0.0
Total bearer shares outstanding, eligible for dividend	28'840'762	28'821'798	0.1
Weighted average shares outstanding	28'836'386	28'821'798	0.1

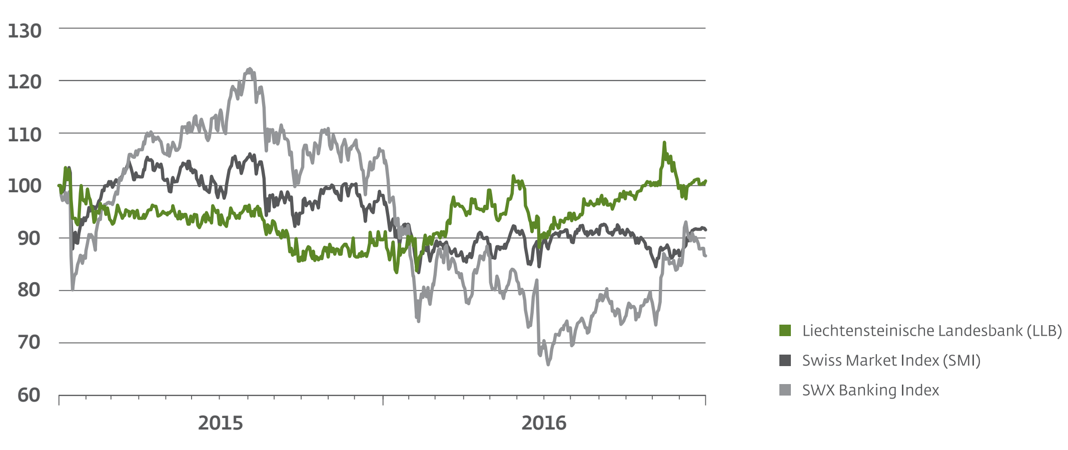
Information per share

	31.12.2016	31.12.2015	+ / – %
Nominal value (in CHF)	5.00	5.00	0.0
Share price (in CHF)	40.35	35.85	12.6
Basic earnings per share (in CHF)	3.40	2.87	18.5
Price / earnings ratio	11.87	12.49	
Dividend (in CHF)	* 1.70	1.60	6.3

* Proposal of the Board of Directors to the General Meeting of Shareholders on 12 May 2017.

Comparison of LLB share

Indexed from 1 January 2015



Key figures

Consolidated income statement

in CHF millions	2016	2015	+ / – %
Income statement			
Operating income	371.7	313.2	18.7
Operating expenses	–258.2	–221.1	16.8
Net profit	103.9	86.3	20.4
Performance figures			
Cost-Income-Ratio (in percent) * / **	62.8	69.5	
Return on equity attributable to the shareholders of LLB (in percent)	5.9	5.0	

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).
** Adjusted to consider market effects (interest rate swaps and price gains) the Cost-Income-Ratio for 2016 stood at 66.5 percent, and for 2015 at 63.7 percent.

Consolidated balance sheet and capital management

in CHF millions	31.12.2016	31.12.2015	+ / – %
Balance sheet			
Total equity	1'806	1'759	2.7
Total assets	19'958	19'670	1.5
Capital ratio			
Tier 1 ratio (in percent) *	21.0	20.6	
Risk-weighted assets	7'587	7'589	–0.0

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

Additional information

in CHF millions	31.12.2016	31.12.2015	+ / – %
Business volume	57'967	56'561	2.5
Assets under management	46'428	45'570	1.9
Loans	11'539	10'991	5.0
Employees (full-time equivalents, in positions)	858	816	5.1

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

This consolidated interim financial reporting is published in German and English. The German version is authoritative.
We also offer the 2016 consolidated interim financial reporting in an interactive online version:

German: http://gb2016.llb.li
English: http://ar2016.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.

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Roland Matt in a video interview

Roland Matt
Group CEO

Hans-Werner Gassner
Chairman of the Board of Directors

Letter to shareholders

Going forward with innovative strength

Dear Shareholders

The LLB Group can look back on a successful 2016 business year. We have made a dynamic start to implementing the StepUp2020 strategy and have worked intensively on our core elements of growth, profitability, innovation and excellence. We have in place a strategic, client-focused business model and we are a bank which firmly upholds its values and continually inspires with technologically innovative offers. Consequently, we have succeeded in 2016 in strengthening our position in the target markets and again achieving operative progress.

Substantially higher net profit

A demanding environment encompassing negative interest rates, volatile financial markets and increasing regulation continued to challenge the banks. But in spite of the uncertainties and the restraint shown by investors, the LLB Group attained substantially higher net profit.

Group net profit rose in 2016 by 20.4 percent to CHF 103.9 million (2015: CHF 86.3 million). Operating income increased by 18.7 percent to CHF 371.7 million (2015: CHF 313.2 million). Besides higher income from financial investments, rising long-term interest rates, especially in the second half of 2016, led to valuation gains with interest rate hedging instruments. Operating expenses amounted to CHF 258.2 million (2015: CHF 221.1 million). The increase was attributable to the strategic expansion of personnel, the upgrading of the bank branch network, accruals for variable salary components and the allocation of provisions for legal and litigation risks.T

The business volume of the LLB Group expanded to CHF 58.0 billion (31 December 2015: CHF 56.6 billion). Loans to clients climbed to CHF 11.5 billion (2015: CHF 11.0 billion) and assets under management to CHF 46.4 billion (2015: CHF 45.6 billion). Net new money outflows amounted to CHF 65 million (2015: minus CHF 206 million).

Financial stability

The LLB Group is superbly capitalised. Equity capital is composed solely of hard core capital and totalled CHF 1.8 billion at 31 December 2016, the Tier 1 ratio stood at 21.0 percent. This ratio substantially exceeded the legal requirements and represents a very sound capital base in international comparison. It is also a characteristic of our consistently high financial security and stability.

Moody's rating underlines financial power

In April 2016, the rating agency Moody's awarded Liechtensteinische Landesbank a deposits rating of Aa2, which underlines our stability and financial power. Accordingly, LLB is among the top range of Liechtenstein and Swiss banks and ranks well above the average of European financial institutions.

Moody's praised the solid fundamental financial data, especially the bank's equity capital base and its liquidity and refinancing situation. The Moody's rating creates additional transparency for clients and market operators.

LLB share – good performance and attractive dividend

The price of the LLB share rose encouragingly in 2016 and in cross comparison exceeded that of our competitors. On 31 December 2016, the share closed at CHF 40.35. Its total return stood at plus 17.3 percent. The SWX Banking Index at the end of December 2016 stood at minus 15.3 percent.

In accordance with our long-term-oriented dividend policy of paying out between 40 and 60 percent of net profit, the Board of Directors will propose a dividend per share of CHF 1.70 (2015: CHF 1.60) to the General Meeting of Shareholders on 12 May 2017. This represents an attractive dividend yield of 4.2 percent.

Personal advice and digital offers

For our customers, the digital offering is an important criteria in selecting a bank. However, when important issues such as retirement provisioning or property financing are concerned, many customers want to speak personally with a trusted adviser. The correct balance between personal advice and digitalisation is therefore crucial. In going forward successfully, we consider both requirements with our omni-channel strategy.

The digitalisation of banking business is one of the key points highlighted in the new StepUp2020 strategy. We have carried out a thorough analysis of this development and by 2020 we will invest a total of around CHF 30 million in high-quality, innovative digital applications. The goal is to combine the physical and digital customer contact points into a seamless customer experience.

As the first bank in Liechtenstein and one of the first in Switzerland, the LLB Group introduced video identification for opening accounts online in March 2016. This enables private individuals from Liechtenstein and Switzerland to open accounts with us from their own computer without having to visit the bank. Despite radical changes, strong client relationships are still the most important long-term success factor in banking. This is reflected in our ground-breaking concept for the bank branch of the future, which we know will offer clients a new advisory experience, as Bank Linth is already doing at its branch in Sargans.

Investment advice of the future

Under the designation "LLB Invest", in March 2016 LLB created a product for the investment advice of the future and new kinds of advisory experience. This investment advisory application combines our Asset Management's award-winning investment competence with the latest information technology and individual advisory models. This hybrid solution brings two worlds together: the speed, precision and reliability of technology with the background knowledge, wealth of experience and creativity of human beings in deploying technical solutions.

For our institutional clients, we have expanded our offering under the label "LLB Xpert Solutions" and increased pricing flexibility. One part of our new B2B product and service package "LLB Xpert Monitoring", is an individually coordinated, continual monitoring of portfolio risks for the end client. These clients also benefit from the innovative advisory solutions offered by the LLB Group.

Innovative combinations of traditional products

The market and client orientation of LLB and Bank Linth are reflected in their product offerings, which enable the LLB Group to stand out on the market. Clients want to decide themselves in what combination they want to use bank services. In summer 2016, traditional products were innovatively combined under the name "LLB Combi / Bank Linth Combi". Using an online configurator, private clients can select the services they want and then pay only for what they use. To date this is the only such service offer on the market to meet their wishes.

The LLB Group has set itself the goal of accompanying its clients at every stage of life or the business cycle, and offering solutions for all financial questions. Private financial planning is an area in which LLB holds a unique position in Liechtenstein. The demand for different expertise from one source continues to be strong. In 2016, we expanded 360-degree financial planning under the designation "LLB Compass" and released new advisory packages for private clients as well as entrepreneurs. Our all-round advisory services cover all the important themes such as wealth planning, retirement, real estate, taxation and estate planning.

Excellence in client advice

Our innovative, holistic client care approach enables us to stand out on the market, and our striving for excellence creates future opportunities for us. We therefore invest extensively in enhancing the knowledge of our staff. By the end of 2020, over 300 of our client advisers will have completed focused training programmes in accordance with the standards of the Swiss Association for Quality (SAQ). The first client advisers successfully completed their training in December 2016.

The new programme for SAQ client adviser certification ensures that we can safeguard the long-term advisory competence of the LLB Group according to uniform quality standards. In Liechtenstein and Switzerland, the LLB Group is one of the first banks to implement this leading, internationally recognised Swiss quality standard throughout the entire corporate group.

Targeted growth

To achieve organic growth on our own, we are giving priority to the strengthening of resources for client advisory services. In 2016, we recruited new client advisers in our growth markets. Maintaining excellent client relationships in all our local and international target markets is the key factor in assuring a successful future for our bank. By concentrating on trust and competence we can exploit the potential for sustained profitable growth that we strive for with our StepUp2020 strategy. In addition, we are also examining targeted acquisitions in our domestic markets of Liechtenstein, Switzerland and Austria.

Operational excellence thanks to lean management

The LLB Group believes that the key to success lies in both improvements through innovation and in the step-by-step optimisation of the company. In 2016, it pushed ahead with the establishment of a lean management culture and set up a competence centre for operational excellence. The focus lies on adding value and eliminating redundancies. By pursuing this approach, the LLB Group wants to implement the philosophy of an intelligent organisation capable of learning. The aim being that by striving for excellence, competitiveness can be further enhanced.

Corporate responsibility

The LLB Group regards corporate social responsibility as being an integral part of its business success. For us social responsibility means harmonising economic activities with our responsibility for society and the environment. This is reflected in the five key themes of market performance, compliance, society, environment and employees. The significance that we attach to these areas is also reflected in this 2016 annual report, in which for the second time we apply the guidelines of version G4 "Core Option" of the Global Reporting Initiative. In this way, we reveal how – as summarized on page 63 – we fulfil our corporate and social responsibilities.

Continuity and diversity in leadership

The LLB Group stands for continuity and diversity. This is reflected in the people who bear responsibility in our company. Changes occurred in the composition of the Group Executive Board and Management Board on 1 July 2016. Heinz Knecht, Head of the Retail & Corporate Banking Division, went into retirement. This means that a highly respected senior executive with extensive banking experience, both at the strategic and highest operative levels, has left the LLB Group. With his profound professional expertise, his conceptional skills and his outstanding social competence he made a major contribution to the positive development of the LLB Group. The Board of Directors and the Group Executive Management would like to thank him for his valuable service.

Urs Müller, formerly Head of the Institutional Clients Division, has taken over Heinz Knecht's position. Natalie Epp, formerly Head of the Fund Services Business Area, was appointed a member of the Group Executive Management and Management Board and succeeded Urs Müller as the Head of the Institutional Clients Division. For the first time in the company's history therefore a woman has been appointed to the supreme operative management body. This internal succession regulation confirms that we can call on good senior management executives.

Georg Wohlwend nominated as Chairman of the Board

On account of the term of office limitation stipulated in the Landesbank law, the period of office of Dr. Hans-Werner Gassner as Chairman of the Board of Directors comes to an end on 12 May 2017. The Board of Directors proposes Georg Wohlwend as his successor to the General Meeting. Georg Wohlwend graduated with a degree in economic sciences from the University of Zurich. Thanks to his long service with a Liechtenstein bank, of which he spent 14 years as a member of the board of management, he possesses broadly based expertise in banking. As a member of the board of directors of a Liechtenstein SME he also has many years of valuable experience in strategic management, which he brings with him.

The Board of Directors proposes to the General Meeting that Prof. Dr. Gabriela Nagel-Jungo and Urs Leinhäuser be re-elected for a second term of office on the Board of Directors. Gabriela Nagel-Jungo is a member of the Strategy Committee, Urs Leinhäuser is a member of the Group Audit Committee and the Group Risk Committee.

Conversion of bearer shares into registered shares

The Board of Directors proposes to the General Meeting that the present bearer shares with a nominal value of CHF 5.00 each be converted into registered shares with the same nominal value. The conversion of the shares is planned for the end of May 2017. By converting the bearer shares into registered shares, the Board of Directors wants to comply with developments at the international level calling for more transparency regarding the share ownership situation with legal entities.

Board of Directors with "Best Board Practice" label

Since 2010, LLB has been certified according to the best board practice model of the two organisations LQS and SQS. The continuity reviews and reassessments subsequently carried out in the years 2011 to 2015 revealed that the organisation and activity of LLB's Board of Directors were consistently of a high standard and fulfilled the requirements of best board practice. The 2016 reassessment confirmed the good governance of the management system of the Board of Directors of Liechtensteinische Landesbank AG.

On course with the StepUp2020 strategy

In 2016, we continued to make consistent advances with the StepUp2020 strategy. We have the right goals, our path is clearly defined and we shall maintain the dynamic momentum of our corporate development in 2017. We shall continue to concentrate on sustainable, profitable growth. By maintaining our client focus, deploying our resources efficiently, keeping costs firmly under control and our strategic objectives clearly in sight, we shall keep the LLB Group on course for success.

Following the launch of various new client services in 2016, our key priority in 2017 will be the expansion of our digital offering with new mobile banking, new websites and new online banking. A further key point in 2017 is our strategic core element of excellence. By the first quarter of 2018, almost half of our employees having client contact will already have completed the training programme for client adviser certification. Our lean management group programme will also make a major contribution to aligning our company even more intensively with client requirements. Lean management will additionally create capacity for new developments and growth.

We are currently taking great steps to optimise our offerings and our profile as an attractive employer. Various projects are also being implemented to care for the health of our employees and enhance the working atmosphere. At the same time, we are paying close attention to changes in society and ensuring a good work/life balance.

We are confident that, thanks to our stable foundation, focused business model, diversified earnings structure and clear strategy, we can achieve further operative progress and attain a solid business result in the 2017 business year.

We would like to thank our clients for their loyalty. Whatever the LLB Group achieves is predominantly thanks to the efforts of our employees, who are always ready to accept the challenge of change and give their best every day. We want to express our thanks to you, our esteemed shareholders, for the trust you place in us.

Yours sincerely

Roland Matt
Group CEO

Hans-Werner Gassner
Chairman of the Board of Directors

An expression of thanks to Hans-Werner Gassner

When Hans-Werner Gassner steps down at the 25th General Meeting an important decade for the LLB Group comes to an end. As the Chairman of the Board of Directors, he has made an enormous contribution to the development of the bank over the last eleven years. At a time of fundamental change in the banking industry, he has consistently and purposefully guided our corporate Group with his vast knowledge, conceptional competence and great people skills.

Many milestones distinguish his term of office including LLB's 150th anniversary. Ten years ago, LLB took over Bank Linth, which today is a strategic pillar of the LLB Group. In 2009, LLB Österreich (Austria) was founded, a bank that attained the breakeven point after only five years. Under Hans-Werner Gassner's leadership, the LLB Group pursued a new strategic course and achieved a position of strength with its Focus2015 strategy. In the meantime it continues its dynamic path into a sustained profitable future guided by the StepUp2020 strategy.

On behalf of my colleagues on the Board of Directors and the Group Executive Board, I would like to thank him sincerely for the rewarding collaboration, enthusiasm and sound judgement in successfully guiding our company.

Markus Foser
Vice Chairman of the Board of Directors

Strategy and organisation

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

Group structure and organisation

Three market divisions

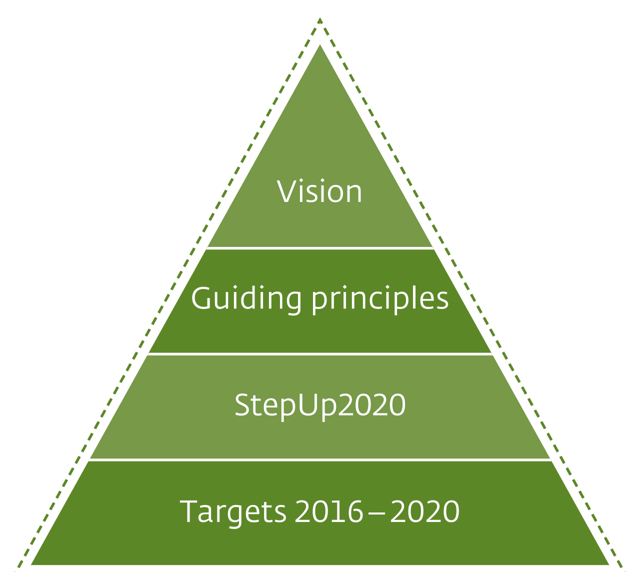
The LLB Group's business model is based on three profitable market divisions:

- **Retail & Corporate Banking** comprises the universal banking business in the home markets of Liechtenstein and Switzerland (see chapter "Retail & Corporate Banking", pages 18–21). It provides the full range of universal bank services to private and corporate clients. As the market leader in Liechtenstein, LLB has a strong competitive position.
- **Private Banking** encompasses all the LLB Group's private banking activities: investment advice, asset management, asset structuring as well as financial and retirement planning (see chapter "Private Banking", pages 22–25). Its focus is on the onshore markets of Liechtenstein, Switzerland and Austria, on the traditional cross-border markets in Germany and the rest of Western Europe, and on the growth markets of Central and Eastern Europe as well as on the Middle East.
- **Institutional Clients** encompasses the intermediary and investment fund business as well as the LLB Group's Asset Management Business Area (see chapter "Institutional Clients", pages 26–29). Clients include fiduciaries, lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions. The target markets are Liechtenstein and Switzerland. With our Asset Management unit, the largest investment team in Liechtenstein, we have multiple award-winning investment expertise.

Governance and management structure

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

- The Board of Directors is responsible for overall management, supervision and control; it sets the basis for the Group's strategy, organisation and finances (see chapter "Corporate governance", pages 70–84).
- The Group Executive Board comprises the heads of the six divisions: the three market divisions and the Group CEO, Group CFO and Group COO divisions (see organisational structure, pages 66–67).
- The LLB Group includes the three banks Liechtensteinische Landesbank AG, Bank Linth LLB AG and LLB (Österreich) AG as well as the two competence centres LLB Asset Management AG and LLB Fund Services AG.



Corporate culture, strategy and objectives

Vision and guiding principles

The LLB Group has a unique corporate culture. It is committed to a concept of banking with a binding system of values. We have enhanced our profile by redefining our vision and guiding principles in 2014 and firmly establishing them in the minds of the employees and managers in 2015 / 2016 (see chapter "Employees", pages 42–43).

Our **vision** is encapsulated in the sentence: "We set standards for banking with values". Our vision of banking is based on the idea that we can excel at managing material values if we have a clearly defined system of values. The resulting **guiding principles** refer to a binding system of values, which mean the following to us:

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

Rules of conduct

We are convinced that responsible and forward-looking management is decisive when it comes to sustaining business success. The LLB Group wants to be measured by its vision and its guiding principles. Its objective is to be a trusted and respectful partner to its clients.

Our values convey orientation, project reliability and promote trustworthiness. We expect the LLB Group's corporate bodies and employees to comply with the applicable laws, regulations, directives, guidelines and professional standards as well as our rules of conduct, which we constantly adapt to the prevailing circumstances and to act with integrity.

StepUp2020 strategy

Strengthened after successfully refocusing, the LLB Group entered a new phase of strategic repositioning in 2016. It is actively addressing the challenges of the future world of banking. The geopolitical and economic environment remains difficult: the strength of the Swiss franc, negative interest rates, volatile financial markets and stricter regulation are challenging the financial sector's resilience. At the same time, digitalisation is on the rise. We are convinced that the combination of man and machine will determine success in a world in which digitalisation and innovation are the motors of growth and prosperity.

	Retail & Corporate Banking	Private Banking	Institutional Clients
Objectives and markets	• Market leader in Liechtenstein and leading provider in eastern Switzerland	• Leading provider in Liechtenstein as well as expansion in Switzerland and Austria • Stable position in the traditional offshore markets of Germany and the rest of Western Europe • Expansion and recognised market position in the growth markets of Central and Eastern Europe (CEE) as well as in the Middle East (ME)	• Preferential partner for fiduciaries and lawyers, asset managers, fund promoters, insurance companies, pension funds and public institutions in Liechtenstein and Switzerland
Strategic initiatives in 2016	• LLB Combi: Individual product packages • LLB Compass: 360-degree financial planning • SME Box: Perfecting the SME offerings • Efficient credit processes • Bank branches of the future	• LLB Invest: Asset management / investment advisory services of the future • Transparent pricing model • Strengthen Group Product Management • Increase client advisers in the CEE and ME growth markets	• LLB Xpert Solutions: Innovative B2B solutions • Dialogue / knowledge transfer using LLB Xpert Views • New organisation
Corporate initiatives	• Innovative services and products • Digital solutions • Lean management • Certification for all client advisers • Further excellence in distribution		

With the StepUp2020 strategy, we are targeting sustainable, profitable growth. Up to 2020, the main focus will be on four core elements:

- **Growth:** We want to achieve this in two ways. Firstly, we want to grow organically by building on our own strengths. We will give high priority to dedicating additional resources to our client advisory services. The LLB Group will recruit more client advisers. Secondly, we will target acquisitions in our home markets of Liechtenstein, Switzerland and Austria.
- **Profitability:** We intend to increase our margins by offering outstanding products and services. Efficient market penetration will, in turn, help to generate profitable income. Maintaining strict cost management is also central to StepUp2020.
- **Innovation:** We will invest in the future in a targeted manner, on the one hand, to develop pioneering digital solutions and, on the other, to provide our clients with an optimised and personalised service. We will automate our standard business and take a personalised approach to our business based on trust.
- **Excellence:** We will optimise processes throughout the organisation using lean management principles. Our aim is to increase the benefit to clients, boost added value and omit the unnecessary. Growing regulation is a big challenge for all financial market participants. We make it a point to set and live up to high compliance standards. We believe that an outstanding level of expertise is a key success factor and therefore promote focused certified training programmes for our client advisers.

Four financial targets

Under the StepUp2020 strategy, the LLB Group will pursue four financial targets until the end of 2020:

Business volume
> CHF 70 bn

Cumulative Group net profit 2016 – 2020
> CHF 500 m

Cost-Income-Ratio
< 65 %

Tier 1 ratio
> 14 %

Finance and risk management

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

Risk management

We are convinced that sustainable, profitable growth is only possible with a prudent risk culture. Consciously accepting and profitably managing risks is one of the LLB Group's core competences. We attach great importance to a prudent approach to dealing with risk at all levels of the organisation. To avoid conflicts of interest, we have established effective and organisationally independent controlling bodies and processes. We address the issue of risk in a constructive and solution-oriented dialogue and manage it appropriately. At the LLB Group, we balance opportunities and risks.

It is essential for the protection of the reputation, the maintenance of the excellent financial strength and the securing of the sustainable profitability of the LLB Group that risks are dealt with prudently (see chapter "Risk management", pages 164–185). It applies a suitable organisational and methodological framework for risk assessment and risk management. We ensure that we can always provide adequate liquidity and capital to cover all material risks with the "Internal Capital Adequacy Assessment Process" (ICAAP).

Integrated organisational approach

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

- **Overall bank management:** It ensures transparency at all management levels in order that costs and income can be managed in line with corporate strategy and in an efficient and timely manner. This includes medium-term planning, the annual budgeting process, the Group Management Information System (MIS) and capital management.
- **Financial management:** It encompasses the preparation of the financial statements in accordance with both local laws and International Financial Reporting Standards (IFRS) as well as reporting and group-wide treasury management.
- **Risk management:** It is based on risk policy and encompasses the systematic identification, assessment, reporting, management and monitoring of credit risks, market risks, liquidity risks and operational risks as well as asset liability management (ALM).
- **Credit management:** It implements efficient and effective credit processes as well as timely credit decisions according to valid directives and instructions in a risk-oriented and profit-oriented manner.
- **Legal & Compliance:** It avoids operational, financial and reputational risk. This requires the systematic monitoring of legal and regulatory changes, providing support for their implementation and carrying out subsequent controls. It deals not only with legal risk, but also compliance risk, such as money laundering and market abuse, and risk related to tax issues (see chapter "Regulatory framework and developments", pages 50–53).

Conservative credit risk policy

The LLB Group accompanies private persons, companies, small businesses and public institutions to finance their plans for the future. The majority of the loans in 2016, i.e. 86.4 percent (2015: 87.0 %), comprised credits secured by mortgages.

The LLB Group pursues a conservative credit risk policy in all divisions and penetrated markets. Integral parts of the credit risk policy include the individual and differentiated evaluation of loan applications, the conservative assessment of collateral values, the individual calculation of affordability as well as compliance with standard equity requirements. The differentiated control processes help us to reliably fulfil our performance mandate (see chapter "Responsibilities for society and the environment", page 56) and to keep risks under control.

The LLB Group primarily extends mortgages with a focus on Liechtenstein and north-eastern Switzerland. Outside of these target markets, it provides mortgages in cases that involve an important client relationship or in cases in which such a relationship can be verifiably established within a reasonable period of time. For real estate financing, we observe the "Ordinance on Banks and Securities Firms" (FL-BankV), which governs the implementation of Art. 7a and Art. 21c. ff of the Liechtenstein Banking Act. For financing in Switzerland, we observe the minimum requirements for mortgage financing drawn up by the Swiss Bankers Association (SBA) and approved by the Swiss Financial Market Supervisory Authority (FINMA). We also apply the EU guidelines on assessing, evaluating and processing mortgage secured loans.

We developed a group-wide uniform methodology for determining the collateral value of our Lombard loans. Credits against non-diversified securities or single asset lending may only form an insignificant portion of a Lombard loan portfolio.

Independent Credit & Risk Management

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

Internal control system (ICS)

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

Equity strategy

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

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

Solid equity base

The LLB Group continues to enjoy a high level of financial stability and security on account of its solid equity base, which consists entirely of hard core capital. As at the end of 2016, the LLB Group had CHF 1.8 billion in equity capital (31.12.2015: CHF 1.8 billion). The Tier 1 ratio stood at 21.0 percent (31.12.2015: 20.6 %). Under the StepUp2020 strategy, we are targeting a Tier 1 ratio of over 14 percent. This gives the LLB Group room to manoeuvre to make acquisitions (see chapter "Strategy and organisation", page 10). LLB is considered to be of systemic importance to the Liechtenstein economy. At 21.0 percent, our Tier 1 ratio is well above the regulatory minimum capital adequacy ratio for systemically important banks in Liechtenstein of 13 percent.

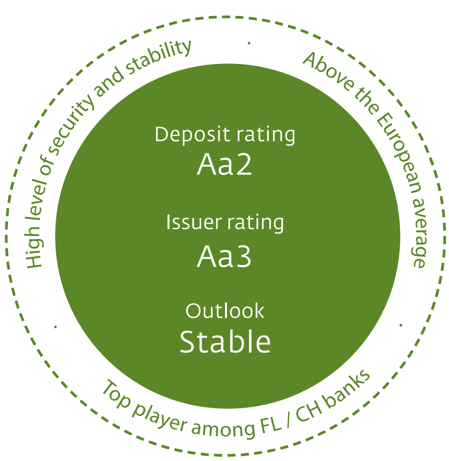
Basel III standard

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

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

Rating affirms financial strength

Moody's, the rating agency, assigned a deposit rating of Aa2 to Liechtensteinische Landesbank in April 2016, affirming its stability and financial strength. This means we rank among the best banks in Liechtenstein and Switzerland and are well above average for European financial houses.



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

Economic environment

In 2016 political and economic uncertainties prompted an intensified need for safety on the part of investors and led to a noticeable restraint in their stock market transactions. Negative interest and volatile financial markets continued to challenge the banking industry.

International perspectives

Since the financial crisis of 2008, the global economy has grown sluggishly. In Autumn 2016, the developed nations were in a moderate recovery phase. The turbulence on the international financial markets at the start of the year and the unexpected vote in favour of a Brexit in the United Kingdom in June 2016 did indeed lead to an increase in uncertainty on the stock markets, nevertheless the real economic effects have so far remained constrained. The International Monetary Fund (IMF) has forecast a growth rate of 3.4 percent for the global economy in 2017.

In the emerging markets the incipient stabilisation process triggered by the recovery of commodities prices continued and growth accelerated slightly. In spite of the turbulence at the beginning of the year, the transformation of the Chinese economy has continued without any major interruptions of growth.

USA

Forecasts foresee the US economy shifting up a gear under the new president thanks to tax cuts and investments in infrastructure. Since the election of Donald Trump, the markets have factored in higher growth, rising inflation and a more restrictive monetary policy. The economic measures planned by the new US administration probably will not yet have a major influence on growth in 2017. However, there are indications that corporate investments are recovering and a GDP growth of 2.3 to 2.8 percent should be possible.

Euro zone

Consumer sentiment and industrial confidence in the euro zone improved on a broad front during the last months of 2016. However, the growth differential within the currency union remains large and probably will not close any time soon. At the same time, besides the geopolitical risks, Europe is still faced with a whole range of potential sources of threat: the Greek crisis, the banking crisis in Italy, as well as the elections in Germany and France. Furthermore, new challenges have arisen as a result of the referendum decision in the United Kingdom in favour of leaving the European Union.

A continuation of the upswing but without any acceleration is to be expected in 2017. The problems in the Italian banking sector are acting as a brake on the granting of credit and the fall in the oil price together with the devaluation of the euro in 2016 provide no further support for growth. The moderate economic recovery in the euro zone is still being driven largely by the expansive monetary policy and for the time being is hiding unsolved structural problems.

Switzerland / Liechtenstein

Following four clearly positive quarters, the Swiss economy almost stopped its expansion in the third quarter of 2016. The abrupt slowdown of GDP growth came as a surprise, on the whole, however, the recovery of the Swiss economy does not seem to be in question. The experts at the State Secretariat for Economic Affairs (SECO) therefore expect an unchanged GDP growth rate of 1.5 percent for the whole year 2016. The preliminary indicators point to a continuation of the moderate economic expansion. The stabilisation of the labour market following the lifting of the minimum exchange rate for the euro by the Swiss National Bank (SNB) on 15 January 2015 has led to an improvement in consumer sentiment. Growth of about 1.5 percent appears to be possible for the years 2017 / 2018.

The upward revaluation of the Swiss franc also affected Liechtenstein's economy in that economic activity moderated. However, over the course of the year Liechtenstein's economy returned to growth, as confirmed by the Department for Statistics in Autumn 2016.

Interest rates and currencies

Global economic growth is being driven above all by the very expansive monetary policy. In the developed countries and emerging markets interest rate levels are still at extremely low levels. Moreover, in recent years the large central banks in the developed countries have provided support for overall economic demand by implementing large-scale quantitative easing measures.

In mid-December 2016, the US Federal Reserve increased key base interest rates by 0.25 percent on the range from 0.5 to 0.75 percent and continued its course of normalising monetary policy. Three further interest rate rises are expected in 2017. Since the increase in the base rate, the US dollar exchange rate has reached new highs while the euro has lost in value.

As a result of the latest increase in interest rates in the USA, the interest differential with Europe has widened further. On 14 December 2016, the European Central Bank (ECB) announced that it would extend its bond purchasing programme beyond March 2017. Zero interest rates have now been in effect in the euro zone since March 2016. Moreover, banks must pay penalty interest on deposits; at the end of the year this so-called deposit facility rate stood at minus 0.4 percent.

In its currency deliberations, the Swiss National Bank is mainly looking to Frankfurt. It will probably continue to play a waiting game and hold interest rates in Switzerland in the negative range. In 2016, the target range for three-month LIBOR lay between minus 1.25 and minus 0.25 percent, the (penalty) interest on bank sight deposits stood at minus 0.75 percent.

Equity markets

On the whole, 2016 proved to be a good year for equities. However the Brexit referendum in mid-year and the US elections did trigger painful price falls. The worldwide equities barometer, the MSCI World (in CHF), achieved a performance of almost 10 percent, largely thanks to the US equities market. The Swiss Performance Index (SPI) lost almost 1.5 percent in 2016. The overall European market developed positively, posting a plus of 2 percent (in CHF).

The DAX in Frankfurt and the French CAC 40 rose by 4.9 percent, the Japanese Nikkei by 0.4 percent and the Nasdaq technology index in the USA by 5.9 percent. The British FTSE 100 in London stood at 14.4 percent and the Dow Jones Industrial Average at 13.4 percent.

The year 2017 has started very positively. The Dow Jones Index exceeded the historical threshold of 20’000 points for the first time. Current equity price movements are reflecting the expectation of improved economic and profit prospects. In an environment of rising interest trends, however, the potential for valuation gains is limited. In 2017, investors will have to tolerate volatile capital markets at times.

Man and machine

Anytime, anywhere, any device – modern technology allows our clients to do their banking anytime and anywhere using a range of communication channels. Our client advisers also play a central role. This smart combination of man and machine will make a real difference to banking of the future.

Using four typical hand movements from the digital world, four employees from the LLB Group show how our successful combination works.

Mobile banking from the LLB Group is based on state-of-the-art standards in design and technology. With a direct line to the client adviser. The mobile banking apps from LLB and Bank Linth show where digitalisation is heading.
www.llb.li/mobilebanking-en

Anna-Karina Büchel, an adviser at LLB's Customer Service Center, is enthusiastic: "Our mobile banking is innovative. Our new apps have various functions and provide a high level of security."
Meet Anna-Karina Büchel at ar2016.llb.li/swipe


swipe

Retail & Corporate Banking

The LLB Group has a strong position in Retail & Corporate Banking. For private clients and the business community it is a partner in all phases of life and all stages of the business cycle. And it combines the communicative bank branch of the future with the digital world.

Quality of business location

The Liechtensteinische Landesbank (LLB) with its headquarters in Vaduz is the largest universal bank in Liechtenstein. Bank Linth (BLL) with its headquarters in Uznach is on of the largest regional bank in eastern Switzerland. Both banks can look back on a long tradition in Retail & Corporate Banking business and both continually adapt to master new challenges. The digitalisation of banking business is one of the priorities that the LLB Group has set itself in its StepUp2020 strategy (see chapter "Corporate Center", page 30). At the same time, it attaches great importance to a modern business branch concept, in the knowledge that the quality of location contributes to client satisfaction.

Where Liechtensteiners bank

As a brand tracking study in 2016 underlined, customers genuinely appreciate the LLB's activities. In the Principality, Liechtensteinische Landesbank is uniquely well known. 95 percent of the persons surveyed thought spontaneously of LLB when they were asked to name a banking institution in Liechtenstein. For 94 percent of respondents the LLB was the bank of choice for private banking transactions. When asked about retail banking business, mortgages or wealth management, LLB was the most frequently named bank. LLB is where Liechtensteiners bank, almost every resident is a customer.

Branch and ATM network

It is the only bank in Liechtenstein to provide a branch and ATM network for all banking business. The Liechtensteinische Landesbank has three bank branches. Bank Linth maintains 19 bank branches in the Swiss cantons of Zurich, St. Gallen, Schwyz and Glarus. In addition, the LLB Group operates 50 ATMs, 20 in Liechtenstein and 30 in eastern Switzerland. In Liechtenstein we register an average of one million transactions a year at ATMs. 31'174 clients made 165'635 transactions at our bank counters.

Banking 24 / 7

The LLB Group combines modern, communicative bank branches with mobile and web-based services. Our online banking provides clients with round-the-clock access to their bank accounts and portfolios. Additionally, it offers a group-wide mobile banking app for iOS as well as Android smartphones and tablets. LLB and Bank Linth cultivate a unique closeness to clients and nurture close ties with the Principality of Liechtenstein and Bank Linth's market area in Switzerland.

Products and services

The Retail & Corporate Banking Division of the LLB Group encompasses the savings and financing business in the domestic markets of Liechtenstein and Switzerland. In addition, LLB maintains a broad variety of client relationships with cross-border workers from the Austrian province of Vorarlberg. It offers the entire spectrum of banking and financial services for private and corporate clients. Traditionally, savings and mortgage lending business has always played an important role. This is supplemented by financial planning and corporate pension provisioning (see chapter "Responsibilities for society and the environment", pages 56 – 57). In addition, the Retail & Corporate Banking Division provides investment advice and asset management to target clients having available assets of up to CHF 0.5 million.

Individual product selection

The market and client orientation of Liechtensteinische Landesbank and Bank Linth are reflected in their product offerings, with which the LLB Group stands out on the market. In summer 2016, traditional products were innovatively combined under the name "LLB Combi / Bank Linth Combi". Private clients can design their individual bank relationship themselves.

Using an online configurator, the client can select the services which he requires. With each click he knows exactly what the selected service costs, and he pays only for what he uses. The freedom to choose in combination with a price advantage results in a hitherto unique model, which fulfils clients' requirements for individuality and clarity in banking business.

360-degree financial planning

The LLB Group has set itself the goal of accompanying its clients at every stage of life or the business cycle, and of offering solutions for all financial questions. Private financial planning is an area in which LLB possesses unique, comprehensive and interlinked expertise. The demand for expertise from one source continues to be high. In 2016, we expanded 360-degree financial planning under the designation "LLB Compass" and released five new advisory packages for private clients and three for entrepreneurs (see chapter "Responsibilities for society and the environment", page 57).

In many small and medium-sized enterprises (SMEs) private and business assets are often closely interlinked. Our holistic financial planning accompanies entrepreneurs from the setting up of their business through the development, growth, maturity and succession phases up to the transfer of the company taking into consideration private budget planning, risk and retirement provisioning, as well as wealth planning.

Business bank for SMEs

As the bank of small and medium-sized enterprises, the LLB Group occupies an important position for the economy in Liechtenstein and eastern Switzerland. Since July 2015, corporate clients have been taking advantage of a comprehensive advisory and service concept, as well as SME box offers with transparent benefits and conditions. SMEs form the backbone of the Liechtenstein and Swiss economy. By meeting these companies' need for credit facilities and banking services, LLB and Bank Linth play an important role in overall economic development (see chapter "Responsibilities for society and the environment", page 54). In 2017, we intend to continue growing our corporate client business.

In January 2016, LLB contractually sealed its collaboration with the Liechtenstein Chamber of Commerce. The collaboration will focus on supporting and promoting the owners, successors, chief executives and senior management of the commercial and business economy. By providing this support, LLB is living up to its local responsibility.

Efficient lending procedures

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

The LLB Group is optimising its credit risk management in line with the latest regulatory standards (see chapter "Financial and risk management", page 12). Moreover, in 2015 within the context of a lean management approach we thoroughly revised our lending procedures (see chapter "Corporate Center", page 31) and reduced the throughput time for a loan application clearly. In September 2016, the LLB Group further standardised and automated its mortgage lending business.

For young people

LLB and BLL are creating new perspectives for young people in Liechtenstein and in eastern Switzerland by becoming a coach for questions relating to financial knowledge in the social media. On the "youli" youth portal, for example, during the 2016 report year, pupils, apprentices and students aged up to 30 received information about savings in the form of competitions.

By offering their "young Liechtenstein" and "young Linth", for short "youli" banking services, the LLB and Bank Linth are also successively expanding their strong market position in the youth segment. In 2016, over 8'032 (2015: 7'140) young people up to 30 years of age took advantage of our range of accounts for young people. To fulfil the expectations of the young generation, who want to decide themselves on the time, place and channel to carry out their financial transactions, we must be agile, innovative and think digitally.

Video identification

The LLB Group wants to win over its clients at every point and time of contact. As the first bank in Liechtenstein and the second in Switzerland, it introduced video identification for opening accounts online in March 2016 (see chapter "Corporate Center", page 30). The LLB Group is setting a fast pace in exploiting the opportunities offered by the digital world. Every customer should be able to decide himself through which channel he wants to carry out his bank transaction or obtain advice.

Saving with strategy funds

With its initiatives the LLB Group is not only exploiting the potential offered by digitalisation. Private investors also benefit from the acknowledged investment competence of LLB Asset Management (see Chapter "Institutional Clients", page 27). Precisely in times of low interest rates, the award-winning LLB strategy funds prove to be a contemporary method of long-term saving and wealth appreciation.

Bank branch concept

The branches of Liechtensteinische Landesbank and Bank Linth deliver a bundle of services. They are providers of high-quality advice, competent service centres and a core of distribution activities. Retail & Corporate Banking is a regional and local business. Our client advisers can assess the potential of private clients and companies and know the history as well as the special features of the region (see chapter "Employees", page 42). Our clients increasingly utilise various channels – smartphone, tablet and PC – in parallel, but without wanting to forego personal advice.

Our goal is to serve clients of all generations – irrespective of how, when and where they wish to carry out their banking transactions. Accordingly, the LLB Group's omni-channel strategy represents a new type of concept for the bank branch of the future.

Bank of the future
The trust of the people and the business community is the LLB Group's core capital, which it carefully nurtures in its bank branches. Since June 2015, the Bank Linth branch in Sargans, Switzerland has been providing clients with a special experience. In a multi-media client zone the obtaining of personal advice becomes an inspiring experience, while the self-service possibilities for carrying out bank and financial transactions have established new service standards.

Bank Linth plans to remodel all its 19 branches in accordance with this "bank of the future" model by 2020 (see chapter "Employees", page 42). For this purpose it has estimated investment costs of CHF 20 million. The Liechtensteinische Landesbank will also adapt its bank branches to suit changed customer behaviour over the next three years.

Internal changes will also be implemented in line with the "bank of the future" concept. Since 2015, the bank has been successively centralising administrative tasks to relieve pressure on client advisers. At the same time, various business areas practice a form of crossworking to provide optimal support for clients in all life situations.

Customer Service Center

For the last three years, the Customer Service Center (CSC) in Vaduz has been the central service hub for 63'000 retail customers providing them with sound knowledge and advice in their language and the appreciation they deserve. Almost 25'300 of them are online banking clients and about 6'300 are mobile banking customers. In 2016, this dedicated team answered around 59'000 telephone calls, almost 6'000 e-mails and over 3'500 bank messages. It also dealt with 50'500 enquiries and questions.

The department further broadened and deepened its knowledge and competence by attending training courses on the automatic exchange of information (AIA), know-your-customer (KYC) and know-your-transactions (KYT) principles, cross-border banking in the LLB offshore markets, as well as on the revised due diligence ordinance (DDO), which came into force in Liechtenstein in 2016. In 2017, we are planning to install a process to systematically activate the knowledge stored in the CSE about the requirements of LLB customers.

Genuine client focus

Clients expect not just high quality advice and digital services, they also want to know how financial products function. As the first financial institution in Switzerland, for several years already Bank Linth has striven to fulfil its clients' requirements for clear and concise communication as well as short decision-making channels. It does this by pursuing its "Simplicity in banking" concept. In 2017, Bank Linth wants to expand its market position while also focusing on emotion, closeness and trust in banking. The aim of this strategic initiative is for the bank to position itself as a financial partner and an active part of the customer family.

Client advisory bank
Client relationships based on trust and a true understanding of customers and their needs are promising prerequisites in order to activate the potential of our clients more robustly in the future. However, intensive advisory services and products cannot be replaced by modern technology. The client adviser plays a central role here.

In 2016, the first client advisers of the Retail & Corporate Banking Division successfully completed the certification programme in accordance with the standards of the Swiss Association for Quality (see chapter "Employees", pages 45–46). By the end of 2020, all clients advisers will be certified. This guarantees the consistent high quality of the LLB Group als a client advisory bank.

Business segment result

Loans to clients and assets under management in the Retail & Corporate Banking segment posted gratifying growth. The business volume rose by 4.3 percent to CHF 18.1 billion (31.12.2015: CHF 17.4 billion). Thanks to net new money inflows, assets under management increased to CHF 8.4 billion (31.12.2015: CHF 8.0 billion). Loans to clients climbed by 3.7 percent to CHF 9.7 billion (31.12.2015: CHF 9.3 billion).

Net new money inflows stood at CHF 334 million (2015: inflow of CHF 199 million). Once again inflows were registered from private and corporate clients in the domestic markets of Switzerland and Liechtenstein. Interest differential business, which comprises the largest part of earnings in private and corporate banking, decreased. The interest environment with record low interest rates and even negative interest led to a substantial fall in contribution margins in deposits business. In contrast, earnings in lending business expanded. Adjustments for credit loss expense were stabilised at a low level. Fee and commission income benefitted from the positive development of the LLB Group's performance-related fee models. On account of lower internal settlements, operating expenses decreased by 6.2 percent.

This resulted in a slight reduction in the segment profit before tax of 1.8 percent to CHF 41.8 million (2015: CHF 42.6 million).

Segment reporting

in CHF thousands	2016	2015	+ / − %
Net interest income	84'077	89'246	−5.8
Credit loss (expense) / recovery	−3'014	−57	
Net interest income after credit loss expense	81'063	89'189	−9.1
Net fee and commission income	29'467	28'124	4.8
Net trading income	10'532	11'157	−5.6
Other income	1'813	543	233.9
Total operating income	**122'875**	**129'013**	**−4.8**
Personnel expenses	−31'679	−31'741	−0.2
General and administrative expenses	−2'364	−2'607	−9.3
Depreciation and amortisation	−68	−321	−78.8
Services (from) / to segments	−46'989	−51'790	−9.3
Total operating expenses	**−81'100**	**−86'459**	**−6.2**
Segment profit before tax	**41'775**	**42'554**	**−1.8**

Performance figures

	2016	2015
Net new money (in CHF millions)	334	199
Growth of net new money (in percent)	4.2	2.4
Cost-Income-Ratio (in percent) *	64.4	67.0
Gross margin (in basis points) **	70.7	75.0

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

Additional information

	31.12.2016	31.12.2015	+ / − %
Business volume (in CHF millions)	18'116	17'374	4.3
Assets under management (in CHF millions)	8'435	8'037	5.0
Loans (in CHF millions)	9'681	9'337	3.7
Employees (full-time equivalents, in positions)	202	223	−9.4

Private Banking

For the LLB Group's Private Banking three factors are crucial: stability and security, outstanding investment performance, and a high level of service quality.

Stability and security

Liechtensteinische Landesbank has stood for stability and security since 1861. With the Principality of Liechtenstein as its majority shareholder, it enjoys a stable ownership structure. Liechtenstein is one of the few countries in the world to possess an AAA rating (see chapter "Responsibilities for society and the environment", page 56). With a Tier 1 ratio of 21.0 percent in 2016, the LLB Group continues to be one of the best capitalised universal banks in international comparison (see chapter "Finance and risk management", page 12). Wealthy private clients and entrepreneurs value this financial stability and security.

Outstanding investment performance

In a competitive comparison, our Private Banking is distinguished by outstanding investment performance (see chapter "Institutional Clients", pages 26–27). Awards received in the past and in 2016 demonstrate that LLB Asset Management AG, our investment competence centre, consistently creates added value for clients with systematic, transparent investment processes. This applies to both asset management and investment funds. The investment team has many years of experience, the investment offering is broadly based, and the pricing is fair and transparent.

High level of service quality

Wealthy clients attach great value to a high level of service quality. The LLB Group's Private Banking advisers are well acquainted with the requirements, expectations and behaviour patterns of it clients. As a result, the private banking testing experts of the Fuchsbriefe publishing house certified our advisory process in September 2016 as demonstrating "great dedication, service-focused and very reliable" (www.fuchsbriefe.de).

International presence – local ties

Through the brands, "Liechtensteinische Landesbank" and "Bank Linth", the Private Banking Division defines its international presence and solid local ties. Our focus lies on the onshore markets of Liechtenstein, Switzerland and Austria, on our traditional cross-border markets of Germany and other parts of Western Europe, as well as on the growth markets of Central and Eastern Europe and the Middle East. The LLB Group operates three booking centres and has a bank in Liechtenstein, in Switzerland and in Austria. We are present internationally in Vaduz, Zurich-Erlenbach, Geneva, Vienna, Abu Dhabi and Dubai, as well as locally through 19 branches of Bank Linth in eastern Switzerland and the three LLB branches in Liechtenstein.

Products and services

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

Investment advice of the future

Asset management and investment advice are core services in private banking. In March 2016, the LLB Group introduced "LLB Invest / Bank Linth Invest", a new product and a new advisory experience providing the investment advice of the future. This investment advisory application combines our Asset Management's award-winning investment competence with the latest information technology and individual advisory models.

As a ground-breaking solution, it supports our active client care and service and enables the analysis and optimisation of a client's portfolio at any time. During 2017, clients in the growth markets will also be able to benefit from this investment advisory solution. This hybrid advisory model brings two worlds together: the speed, precision and reliability of technology with the background knowledge, wealth of experience and creativity of human beings in deploying technical solutions.

Private financial planning

The LLB is the only bank in Liechtenstein to offer comprehensive financial planning services, a business area which was enlarged again in 2016. With our "LLB Compass", we support our private clients and entrepreneurs at every stage of life or every phase of the business cycle to achieve their financial goals. This service covers all the important themes such as wealth planning, financing facilities, retirement, real estate, taxation and estate planning (see chapter "Responsibilities for society and the environment", page 57).

Transparent pricing model

The LLB Group is meeting and mastering the challenges of the modern era with agility and innovative power. All three banks in the LLB Group completely forego retrocessions on their own and external investment funds. In Liechtenstein LLB is the only bank, and in Switzerland one of the few banks, to deploy a pricing model exempt from retrocessions in its asset management and investment counselling services.

Group Product Management

To increase its innovative power and to harmonise and accelerate product development, the LLB Group has set up the Group Product Management Business Area, which brings together all the product competencies under one roof. It consists of three departments, which are responsible for all market regions.

Closeness to clients

The close relationships between clients and experienced client advisers, which private clients and entrepreneurs need through all the various stages of life or the business cycle, is a special attribute of the LLB Group. All our Private Banking advisers maintain close ties with clients in the local target markets (see chapter "Employees", page 42). In 2016 more client advisers were recruited.

Client adviser certification

Our holistic client focus enables the LLB Group to stand out on the market. We make extensive investments in the knowledge of our employees. By the end of 2020, all our client advisers will have completed the certification programme according to the standards of the Swiss Association for Quality (SAQ) (see chapter "Employees", pages 45 – 46). By the end of 2020, all clients advisers will be certified.

Client satisfaction

Client satisfaction is the crucial factor in order to remain competitive over the long-term. We rely not just on feedback from our client advisers in order to measure client satisfaction, in 2016 we obtained the opinions of clients directly in dialogue groups. A brand tracking study held in March revealed that as an investment bank, the LLB received a top ranking from almost all the wealthy clients surveyed (see chapter "Brand and sponsoring", page 40).

Market regions

Liechtenstein, Switzerland and Austria

The Liechtenstein and Swiss financial centres have the potential to attract investors, who are seeking security and safety for their investments. In spite of the limited area of the market, in 2016 the LLB Group registered an increase in client assets under management in Liechtenstein.

Our bank in Vienna, LLB (Österreich) AG, reached the break-even point in 2014 after only five years of development. It continued its success story in 2016.

Traditional cross-border markets of Germany, Switzerland and parts of Western Europe

For our asset management, Germany is still our largest and most important private banking market in Europe. Our business volume has stabilised in this market.

Central and Eastern Europe as well as the Middle East

Largely due to streamlining activities, the LLB Group registered asset outflows in Central and Eastern Europe during 2016. Hower, we believe there is further growth potential in the Eastern European EU states and in the highly competitive key Russian market.

Dubai is regarded as the business hub for the Gulf region. Abu Dhabi plays an important role for the United Arab Emirates (UAE), which is one of the most financially strong investors in the world. We provide our clients with access to the stock markets in Dubai and Abu Dhabi. Since 2016, we have a team to care for non-resident Indian clients, while a second team looks after our Arab and other expat clients. The LLB Group's Private Banking is extremely successful in the Middle East market region.

Cross-border banking

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

Tax compliance

The LLB Group's business model aims at its clients meeting tax compliance requirements (see chapter "Regulatory framework and developments", pages 50 – 51). In line with the tax compliance strategy of the Principality of Liechtenstein, the LLB Group has largely completed the transformation process in the field of taxation with EU and international clients. We apply a risk-based approach in dealing with new and existing clients.

Business segment result

The Private Banking business segment achieved gratifying inflows in the strategic growth markets. The net new money inflow stood at CHF 173 million compared with an outflow of CHF 217 million in the previous year. This was also reflected in the rise in client assets under management of 1.2 percent. In total, the segment registered an increase in business volume of 2.1 percent to CHF 14.8 billion. Loans to clients rose substantially by 11.4 percent.

In spite of a difficult investment environment and continuing pressure on margins, the Private Banking segment reported a stable earnings development in deposit-taking business. The uncertainty of clients and the resulting lower client activity as well as higher liquidity holdings led to a decrease in fee and commission income. Revenues from client trading were below the record level of the previous year. Operating expenses rose by 11.4 percent. This was largely attributable to the strategic expansion of personnel by 11.7 percent to 153 (31.12.2015: 137).

The segment result before tax decreased as expected to CHF 32.2 million (2015: CHF 41.1 million).

Segment reporting

in CHF thousands	2016	2015	+ / – %
Net interest income	15'695	16'590	– 5.4
Credit loss (expense) / recovery	750	0	
Net interest income after credit loss expense	16'445	16'590	– 0.9
Net fee and commission income	65'390	66'766	– 2.1
Net trading income	8'955	10'277	– 12.9
Other income	2	2	0.0
Total operating income	**90'792**	**93'635**	**– 3.0**
Personnel expenses	– 30'631	– 24'209	26.5
General and administrative expenses	– 3'576	– 2'776	28.8
Depreciation and amortisation	0	0	
Services (from) / to segments	– 24'384	– 25'592	– 4.7
Total operating expenses	**– 58'591**	**– 52'577**	**11.4**
Segment profit before tax	**32'201**	**41'058**	**– 21.6**

Performance figures

	2016	2015
Net new money (in CHF millions)	173	– 217
Growth of net new money (in percent)	1.3	– 1.3
Cost-Income-Ratio (in percent) *	64.6	56.5
Gross margin (in basis points) **	63.6	64.3

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

Additional information

	31.12.2016	31.12.2015	+ / – %
Business volume (in CHF millions)	14'754	14'448	2.1
Assets under management (in CHF millions)	13'283	13'128	1.2
Loans (in CHF millions)	1'471	1'320	11.4
Employees (full-time equivalents, in positions)	153	137	11.7

Institutional Clients

In a constructive dialogue with institutional clients, LLB enhances their potential and success. Investment competence, extensive expertise and personal service are the attributes that distinguish us.

Business profile

The Institutional Clients Division encompasses the intermediary and funds business, as well as the asset management operations of the LLB Group. We concentrate on fiduciaries, asset managers, fund promoters, insurance companies, pension funds and public institutions. Liechtenstein is the only country in Europe having unrestricted access to two economic areas: Switzerland and the European Union. This enables an optimal servicing of our two core markets, Liechtenstein and Switzerland.

Competence centres

Awards gained in the past and in 2016 show that the LLB Group's investment competence centre, LLB Asset Management AG, consistently generates substantial added value for our clients using systematic, transparent investment processes. This applies to both asset management and our Europe-compatible investment funds.

Our second competence centre, LLB Fund Services AG, is one of the two largest fund service providers in the Liechtenstein financial centre. LLB is an important provider of individual private label fund solutions and – measured by the number of mandates – is the market leader in Liechtenstein as a custodian bank for external funds.

The great strength of the Financial Intermediaries Department within the Institutional Clients Division is its dense client network. In Liechtenstein almost every licensed fiduciary and the majority of independent asset managers is a client of LLB. We therefore maintain very close ties with clients and know their requirements thoroughly.

Transfer of knowledge

One of our most important principles is to cultivate an open, partner-like dialogue with our institutional clients. The transfer of knowledge and exchange of information are vital for the social and economic development of the Liechtenstein financial centre and therefore also for the LLB. Competent, professional investors can make better decisions on behalf of their clients and pass on knowledge to them. In following up round table discussions, the LLB Group has put in place a structured feedback process to learn what is important for institutional clients. This strengthens the network and increases the innovation potential.

Online platform

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

In exclusive round-table discussions LLB's experts and investment specialists regularly provide the latest information about current topics. The focus here is on issues which concern our clients in practice. The main issues in 2016 concerned the automatic exchange of information and the expanded due diligence ordinance, both of which came into force on 1 January 2016, as well as the commodities asset class and the possible consequences of Brexit. Furthermore, "LLB XpertViews-Specials" on the investment policy of the LLB Group were held for fund management companies. The success of the events demonstrated that shared knowledge leads to better results.

Asset Management

Asset Management (ASM) takes a central position within the LLB Group. It manages future-oriented, high-performing products and supports all three market divisions with investment competence in the three target market regions (see chapter "Strategy and organisation", page 8). As a member of the Association of Independent Asset Managers in Liechtenstein, this Group company plays an active role in the development of the Liechtenstein financial centre.

Global Investment Performance Standards

For 15 years, Asset Management has been GIPS certified, i.e. it adheres to a compliance standard in line with the „Global Investment Performance Standards", a method of calculating and presenting investment performance that is recognised throughout the world. At the end of

2016, the volume invested in LLB funds stood at CHF 5.2 billion, representing a continual increase within the last five years. The asset management volume amounted to CHF 5.5 billion.

Awards

In a long-term competitive comparison, the most important track record of every asset manager, LLB consistently achieves top rankings with its strategy funds. In 2016 / 2017, it received the following awards

- **Umbrella fund award** of the "GELD", the Austrian journal for financial professionals (twelve umbrella fund awards in five years)
- **Hedge Fund Awards 2017** of the magazine "Acquisition International (AI)": "Best Portfolio Manager – Liechtenstein" and "Best Alternative UCITS Fund"
- **"FUCHS Performance Project II"**: top position for the fourth year in a row
- **"German Fund Prize"** at the "15th Funds Professional Congress" honoured for the second time with the title "Outstanding"

LLB investment funds

LLB Asset Management possesses outstanding investment expertise and is constantly expanding and enhancing its knowledge. In 2016, we further refined and improved our range of funds and our analysis, which is based on quantitative value models. Further improvements to attain systematically good performance were made in particular to the equities model. In both asset management and investment advisory business, the LLB Group foregoes retrocessions for its own and external funds.

With the exception of five funds for large institutional investors, all LLB funds are Europe-compatible. This means they comply with the UCITS IV EU directive (Undertakings for Collective Investment in Transferable Securities Directive) with respect to investment categories, diversification, transparency, tradability and risk. The reference data of every fund, such as strategy, costs and risk profile, can be simply and clearly read on the key investor document (KID). LLB UCITS funds are licensed for distribution in Liechtenstein and Switzerland, and since January 2016, the majority of the funds are also licensed for distribution in Germany and Austria.

Almost thirty retrocession-exempt LLB funds are mainly actively managed by experienced fund managers. A systematic, value-oriented security selection process together with conscious risk control are the key factors driving their good performance.

Asset management

LLB offers six different investment strategies from "Fixed Interest" to "Equities" in the reference currencies CHF, EUR and USD. This makes it simple for clients to invest in the portfolio most suitable for their particular life situation. Asset management clients also benefit from the extremely good investment returns achieved by LLB Asset Management.

Investment Center organisation

Our new Investment Center has been enhancing the investment advisory competence of the LLB Group since January 2016. This solution brings the investment organisational units of Bank Linth, LLB Austria, LLB Erlenbach and LLB Dubai together at the Investment Center Vaduz to form the interface between the client advisory and asset management functions. An increase in personnel is planned at the Investment Center in Vaduz for 2017.

Fund Services

LLB Fund Services AG is an important earnings pillar having growth potential for the LLB Group. As a member of the Executive Board of the Liechtenstein Investment Fund Association, it actively participates in shaping the business conditions for the Liechtenstein fund centre, which in turn is supervised by the Liechtenstein Financial Market Authority (FMA) – a body recognised throughout the EU.

LLB Fund Services AG offers a comprehensive array of services including fund management, fund administration, risk management and custodian services for traditional and alternative funds. In total, Fund Services had assets under management at the end of the year under report of CHF 11.1 billion.

As an "all-in-one shop", our client advisers can call on a wealth of experience. Fund Services sets up made-to-measure funds both in-house and for independent asset managers, family offices and other fund promoters, which it structures and administers, as well as ensuring state-of-the-art risk management.

LLB as a custodian bank

At the end of 2016, LLB was serving as a custodian bank for around 220 investment funds. As a pioneer in exercising the function of a custodian bank for external funds in Liechtenstein, LLB has acknowledged experience and years of expertise in the management and administration of complex fund mandates having various strategies and investment categories.

Private labelling

LLB Fund Services AG implements made-to-measure structuring solutions for independent asset managers and other fund promoters such as family offices. It has made a name for itself as a specialist particularly in the field of private labelling. Private label funds bear the name desired by the client and are structured according to his requirements under Liechtenstein or EU law. Private label fund solutions are very individual and are ideally suited for efficient asset management as well as structuring alternatives for large volumes of assets. They offer the same investor protection as with public funds.

EU passport for alternative investment funds

With a share of 0.34 percent of the fund market, Liechtenstein is one of Europe's fund boutiques offering made-to-measure fund solutions, short approval periods and EU compatibility. Having access to the EU market is of vital importance for the competitiveness of the Liechtenstein fund centre.

Since October 2016, Liechtenstein alternative investment funds (AIF) and alternative investment fund managers (AIFM) have unrestricted access to the 28 EU and EEA / EFTA states. The incorporation of the AIFM directive in EEA treaty entitles the managers of alternative investment funds to conduct cross-border management and distribution activities aimed at professional investors (see chapter "Regulatory framework and developments", page 53). LLB Fund Services has possessed a license to manage alternative investment funds since June 2015.

The new fund law, which came into effect in October 2016, complements the UCITSG (2011) and AIFMG (2013) legislation based on European law. Above all, the new fund law regulates the special business model existing in Liechtenstein of funds for single investors, families, interest groups or corporate structures.

Liechtenstein / Switzerland withholding tax

The new double taxation agreement between Liechtenstein and Switzerland came into effect in January 2017. As a result of the agreement, LLB fund clients resident in a country which has a double taxation agreement with Switzerland now enjoy new tax refund possibilities. This leads to new, interesting asset structuring possibilities with the asset classes equities Switzerland and bonds CHF with Swiss issuers.

Financial intermediaries

At the LLB, professional investors and financial intermediaries receive comprehensive service and care. The LLB's goal is to jointly offer end clients requirement-targeted investment advice or individual asset management ranging from analysis to detailed reporting.

The volume of assets managed for financial intermediaries in 2016 totalled over CHF 12 billion. We are well positioned in the fiercely competitive Swiss market and foresee further growth potential. In 2017, the LLB Group will intensify its advisory activities in Switzerland by recruiting new client advisers and holding more round-table events.

Innovative B2B solutions

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

Since March 2016, our institutional clients have also been benefitting from a customised and transparent, flexible pricing model, which distinguishes LLB from its competitors. Our B2B package supplements our product and service offer as well as enabling us to intensify the dialogue with our clients. The package includes "LLB Xpert Monitoring" that provides an individually coordinated, continual monitoring of the portfolio risks for the end client. This supplies an additional degree of security and contains interesting opportunities for intermediaries to fulfil their control obligations.

Genuine continuity and competence

We help financial intermediaries to find the correct investment strategy with good diversification for their end clients. For this purpose we provide a high level of service quality, sound investment advice, up-to-date information on regulatory and investment subjects, open and constant communication, as well as a personal contact partner. The positive feedback that we have received confirms the validity of our model.

With some asset management mandates, our client advisers bring in specialists from the Asset Management Division. In 2016 several specialist training courses were also held on subjects such as AIA, FATCA and KYC (see chapter "Regulatory framework and developments", pages 50–51). At the same time, our client advisers participated in the training programme according to the standards of the Swiss Association for Quality (SAQ) (see chapter "Employees", pages 45–46). By the end of 2020, all clients advisers will be certified.

Business segment result

At CHF 46.2 million, the Institutional Clients segment posted a new record segment result.

Operating income rose by 7.4 percent to CHF 77.9 million. The rise was attributable to higher earnings from interest business as well as the release of value adjustments for credit losses. Interest business benefitted from higher margins on foreign currency holdings. The restraint shown by investors with stock market transactions led to a decline in brokerage earnings in commission business. In contrast, income from funds business showed a gratifying rise. Operating expenses increased by 10.6 percent. This was attributable to higher accruals for variable salary components and an increase in internal offsetting with other divisions.

Client assets under management posted an increase of 1.3 percent to CHF 24.7 billion. Loans to clients remained stable at CHF 0.5 billion. As a result of individual larger outflows triggered by public institutions and in cross-border business, net new money amounted to minus CHF 568 million.

Segment reporting

in CHF thousands	2016	2015	+ / – %
Net interest income	10'300	8'147	26.4
Credit loss (expense) / recovery	1'275	– 5'979	
Net interest income after credit loss expense	11'575	2'168	433.9
Net fee and commission income	55'795	56'907	– 2.0
Net trading income	10'538	11'896	– 11.4
Other income	3	1'584	– 99.8
Total operating income	**77'911**	**72'555**	**7.4**
Personnel expenses	– 17'041	– 15'575	9.4
General and administrative expenses	– 2'538	– 2'985	– 15.0
Depreciation and amortisation	0	0	
Services (from) / to segments	– 12'167	– 10'133	20.1
Total operating expenses	**– 31'746**	**– 28'693**	**10.6**
Segment profit before tax	**46'165**	**43'862**	**5.3**

Performance figures

	2016	2015
Net new money (in CHF millions)	– 568	– 193
Growth of net new money (in percent)	– 2.3	– 0.8
Cost-Income-Ratio (in percent) *	41.4	37.2
Gross margin (in basis points) **	30.8	31.5

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

Additional information

	31.12.2016	31.12.2015	+ / – %
Business volume (in CHF millions)	25'227	24'854	1.5
Assets under management (in CHF millions)	24'704	24'394	1.3
Loans (in CHF millions)	523	460	13.7
Employees (full-time equivalents, in positions)	86	84	2.4

Corporate Center

As the internal service provider, the Corporate Center bundles and controls the central functions of the LLB Group, which as a client-centric, technically oriented and integrated bank focuses on digitalisation and lean management.

Internal service provider

The Corporate Center encompasses the Group COO, Group CFO and Group CEO Divisions. It initiates, coordinates and monitors group-wide business activities, processes and risks. Furthermore, it safeguards corporate development including information technology and improves the efficiency of processes as well as the quality of services. Fully focused on the requirements of the operative divisions, the Corporate Center makes a direct contribution to the value added by the LLB Group.

The central Communication, Marketing, Human Resources, Finances, Risk and Credit Management, IT, Trading, Securities Administration, Payment Services, Corporate Development, Facility Management and Procurement as well as Legal & Compliance Services are unified into the Corporate Center.

Digitalisation of banking business

The Corporate Center actively supports the implementation of the StepUp2020 strategy (see chapter "Strategy and organisation", page 9). In 2016, the priority was placed on two key points, firstly, the firm integration of a lean management culture in the LLB Group, and secondly, pioneering innovations in the digitalisation of client interaction, whereby for us the interplay of people and technology is crucial. Several projects have already been realised.

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

Video identification

As the first bank in Liechtenstein and one of the first in Switzerland, we introduced video identification for the opening of accounts online in March 2016. This enables private customers in Liechtenstein and Switzerland to open an account via video from their own computer. We were able to assume this pioneering role because the Liechtenstein Financial Market Authority (FMA) had already put in place the prerequisites for this new method of opening an account in March 2015.

Investment advice of the future

Under the label "LLB Invest / Bank Linth Invest" the LLB Group also brought on to the market a model for the investment advice of the future, which makes it possible for clients to experience a new kind of advisory service (see chapter "Private Banking", page 23). This also applies to "LLB Xpert Monitoring", which provides institutional clients with individually tailored, continual monitoring of the portfolio risks of their end clients (see chapter "Institutional Clients", page 28).

Strategic innovation partnerships

The LLB Group's ground-breaking, IT-supported investment advisory application was developed in a strategic innovation partnership with the prestigious software and financial services provider Avaloq and the swissQuant Group, a FinTech company that specialises in risk and revenue analysis. This type of collaboration between banks, IT service providers and FinTech companies will play a major role in the development of the digital bank in the future. To implement digital banking, the Corporate Center is currently cooperating with other external partners.

Web portal with online banking

Five extensive projects were developed in parallel in 2016: mobile banking, redesign of the website, online banking, fraud detection as well as security and infrastructure. At the beginning of 2017, we introduced the new mobile banking apps with touch ID for LLB and Bank Linth. In July we shall present the new web portal with integrated online banking in a modern layout and with a user navigation concept – both will be completely responsive and have additional data protection. In a new feature, visitors to the website will be able to compose and submit a profile. And, using new technologies for chatting, co-browsing and social media, client advisers will be able to provide their clients with faster and simpler support in future.

During the course of 2017 other services will also experience a digitalisation boost. These include payment services, home financing, investment advisory and financial planning services. The LLB Group's client advisers will receive new instruments, for example advisory tools for tablets, which will facilitate personal discussions with clients. In addition, the IT Department is working on extending the video identification application and further functions with mobile banking.

Customer journey analysis

The digital revolution gains its power not just from technology and competition, but also from people. For many bank clients online banking is now commonplace. At the same time, thanks to innovative offers such as video advice or the integration of social media, digital banking is continually gaining in acceptance. The goal of the LLB Group is to accompany and support its customers optimally, efficiently and in a unique way on their journey through all the points of contact with the bank – both online and offline.

Prior to developing new products and services, we carry out a customer journey analysis. Our aim here is to see the customer experience at all the points of contact with the bank through the eyes the customer. By critically observing and analysing the individual interfaces and evaluating the collected data we can then decide on the necessary investments and activities. Besides the online and mobile distribution channels, the points of contact also include the Customer Service Center as well as provision of personal advice in the bank branches of the future (see chapter "Retail & Corporate Banking", page 20).

Digitalisation and data protection

The LLB Group not only thinks digitally, it also gives intensive consideration to the new risks that digitalisation brings with it. For example, personal data – and therefore access to services – are increasingly stored and interlinked in cyberspace. The constant modification of our security infrastructure, as well as monitoring and analysis systems, together with the training of our staff, forms the essential basis for the comprehensive protection of the information we are entrusted with.

Fraud detection system

In full awareness of how vitally important the security of systems and data is, we have designed the future software architecture accordingly. Using autonomous systems, we strictly separate public from personal data. At the same time, we deploy photoTAN authentification, which ensures the highest level of security. Working together with a technology partner, we have in addition developed a very broad-based fraud detection system to counteract internal and external threats.

Information security

Information processing systems, which ensure confidentiality, availability and integrity, provide protection against threats and dangers, help prevent damage and minimise risks. The LLB Group's data centre has one of the highest security standards in the world (see the chapter "Responsibilities for society and the environment", page 60).

Dealing responsibly with client data and information is an integral part of LLB's corporate culture. The Group Information Security Department formulates, implements and maintains our information security programme. The principles and guidelines on which this is based are stipulated in directives that are binding throughout the Group.

Data protection

Increasingly stringent legal provisions provide guidelines for data protection. In 2016, the Group Information Security Department received no alerts from the persons responsible for data security in the Group companies. We are bound by the laws and the regulatory provisions in Liechtenstein, Switzerland and Austria, as well as the specific regulations and circumstances in our target markets.

In 2016, the LLB Group introduced the latest Swiss standards for dealing with risks in connection with electronic client data. This included the documentation and classification of client identifying data (CID), the cataloguing of data storage locations and data access, as well as risk controlling by means of a structured process. Switzerland is currently preparing a revision of the data protection law, which will bring it into line with EU legislation.

In the European Union the EU data protection basic regulation came into force on 24 May 2016. This must be applied by 25 May 2018. Thanks mainly to the new transparency and information obligations for companies, substantially stronger protection will be provided. LLB will implement the necessary organisational and technical measures, prepare group-wide rulings and train its staff accordingly.

Lean management

The LLB Group believes that the key to success lies both in improvements through innovation and in the step-by-step optimisation of the company. Continual progress in improving efficiency, IT optimisation and the simplification of structures facilitate growth and profitability. In line with the StepUp2020 strategy, the Group COO Division intends to firmly establish a lean management culture in the LLB Group. For this purpose it set up the new Operational Excellence Department in 2016.

Operational excellence

The new department places its focus, on the one hand, on offering every client the services that he really wants. On the other, it wants to identify redundant processes. Improved business processes should enhance the quality of services and further increase client satisfaction. By following the lean management concept, the LLB Group wants to implement the philosophy of an intelligent organisation capable of learning.

The aim is to increase the number of customer contacts in all distribution units. To achieve this, we shall use lean methodology to analyse our client advisory teams, as well as the operative conditions, procedures and interfaces. In 2017, we plan to strengthen the concept of lean management by holding appropriate training courses throughout the company as well as carrying out a pilot project in the Private Banking Division.

High level of automation

Since introducing the Banking Suite software throughout the Group in 2011, the LLB Group has continually improved its processing quality and productivity. In 2016, in comparison with the appropriate benchmarks (CC sourcing of the University of St. Gallen), the LLB Group attained very high STP rates (the percentage of transactions, which from start to finish are processed fully automatically). Of all payment orders processed, 92 percent were already being submitted electronically and the STP rate stood at 99 percent. Over 98 percent of stock market statements were processed automatically and the STP rate with capital market transactions was almost 80 percent. Accordingly, the LLB Group has the essentials in place to efficiently process large transaction volumes with the existing infrastructure.

Shared Service Centers

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

Compliance

Technology will also make risk mitigation and compliance functions faster, more precise and less expensive in a digital world. Nevertheless, good governance is not just a question of technology, but rather of human behaviour. Integrity is of the utmost importance for gaining the trust of our clients, shareholders, employees and the general public. Accordingly, the LLB Group attaches great importance to the Legal & Compliance Business Division.

Enlargement of Legal & Compliance Division

In 2016, we continued to develop our Legal & Compliance function. The division's headcount was increased from 29 to 37 full-time equivalent positions and it was completely reorganised. The LLB Group Legal & Compliance Division now comprises a classical legal department and three specialised compliance departments, i.e. Group Financial Crimes Compliance, Group Regulatory Compliance and Group Tax Compliance. This independent organisational unit supports responsible, business oriented activity and avoids or reduces the danger of compliance risks (see chapter "Regulatory framework and developments", page 53).

Business segment result

The LLB Group reports the structural contribution from interest business and the valuation of interest rate hedging instruments, as well as income from financial investments under the Corporate Center.

Operating income rose from CHF 18.0 million to CHF 80.1 million. A slight increase in interest rates during the second half year had a positive effect on the valuation of interest rate swaps from the perspective of the reporting date. The valuation of financial investment also had a positive influence on operating income, leading to a profit from financial investments of CHF 21.8 million. In addition, income from interest business increased, which was attributable to the higher structural contribution. Operating expenses climbed to CHF 86.8 million. Provisions for legal and litigation risks, the expansion of personnel in the innovation, compliance and risk management areas in line with LLB strategy, as well as higher accruals for variable salary components led to the rise in expenses.

The segment profit before tax stood at minus CHF 6.7 million (2015: minus CHF 35.4 million).

Segment reporting

in CHF thousands	2016	2015	+ / – %
Net interest income	27'994	18'471	51.6
Credit loss (expense) / recovery	0	0	
Net interest income after credit loss expense	27'994	18'471	51.6
Net fee and commission income	– 4'914	– 2'173	126.1
Net trading income	25'917	– 246	
Net income from financial investments at fair value	21'836	– 736	
Share of net income of joint venture	0	– 13	– 100.0
Other income	9'252	2'656	248.3
Total operating income	**80'085**	**17'959**	**345.9**
Personnel expenses	– 61'484	– 52'257	17.7
General and administrative expenses	– 81'380	– 55'286	47.2
Depreciation and amortisation	– 27'480	– 33'336	– 17.6
Services (from) / to segments	83'540	87'515	– 4.5
Total operating expenses	**– 86'804**	**– 53'364**	**62.7**
Segment profit before tax	**– 6'719**	**– 35'405**	**– 81.0**

Additional information

	31.12.2016	31.12.2015	+ / – %
Employees (full-time equivalents, in positions)	417	372	12.1

Investment advice at the clients' fingertips

Pioneering investment advice creates new advisory experiences. Under the names LLB Invest and Bank Linth Invest, the LLB Group has launched the investment advice and asset management model of the future onto the market. The IT-supported solution is unique.

The model connects two worlds: the speed, precision and reliability of the machine with the background knowledge, the wealth of experience and the creativity of man who skilfully deploys technical solutions.
www.llb.li/invest-en

Fabian Bürzle, a private banking client adviser, works with LLB Invest on a daily basis: "Together with my clients, I produce professional investment proposals online. Clients input their goals and aspirations for the future."
Meet Fabian Bürzle
at ar2016.llb.li/zoom


zoom

The LLB share

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

Market capitalisation

The LLB share has been listed on the SIX Swiss Exchange under the symbol LLB (security number: 3019524) since 1993 and assigned to the "International Reporting Standard" segment. In 2016, a total of 2,141,897 LLB shares (2015: 1,733,842) were traded on the SIX Swiss Exchange, corresponding to 7.0 percent (2015: 5.6 %) of total shares issued. With 30.8 million bearer shares issued, the market capitalisation of Liechtensteinische Landesbank AG stood at CHF 1,242.8 million (2015: CHF 1,104 million) as at 31 December 2016. The Board of Directors will propose the conversion of the existing LLB bearer shares with a nominal value of CHF 5.00 each into registered shares with the same nominal value at the General Meeting of Shareholders on 12 May 2017. The execution of the conversion is planned for the end of May 2017.

Shareholder structure

The Principality of Liechtenstein's holding of 17.7 million LLB shares (57.5 % of the share capital) remained unchanged in 2016 on the previous year. On 22 November 2011, the Liechtenstein Government, as the representative of the majority shareholder, adopted the ownership strategy it had been pursuing in regards to the Principality's equity stake in Liechtensteinische Landesbank AG. The Liechtenstein Government thereby explicitly supports the stock exchange listing of LLB and retains a majority stake of at least 51 percent.

LLB held 6.4 percent (2015: 6.4 %) of its own shares, while Thornburg Investment Management Inc. held 2.95 percent (2015: 3.7 %) of total shares issued as at the end of the reporting year. No other shareholder held more than 3 percent of the share capital. A total of 10,232,642 shares, or 33.2 percent, were in free float as at 31 December 2016 (31.12.2015: 9,971,798, or 32.4 %).

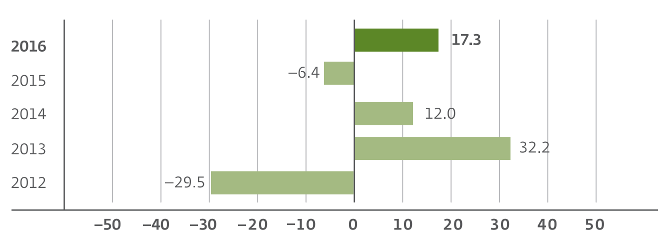
Share price performance

The Swiss Performance Index (SPI) lost minus 1.4 percent on the previous year. Over the same time period, the price of the LLB share increased by 12.6 percent to CHF 40.35 as at 31 December 2016. The LLB share also significantly outperformed the banking sector: the SWX Banks Index ended the year 15.3 percent lower.

The LLB share held up very well despite historically low interest rates and global market uncertainties. The slight rise in interest rates at the end of the year and also, in particular, the diversified business model bode well for sustainable positive development. With its StepUp2020 strategy, the LLB Group is targeting profitable growth. Its annual results for 2016 underline its ability to generate good results even in a difficult environment.

Total return on the LLB share

2012 – 2016, in percent



The total return on the LLB share stood at 17.3 percent (including re-invested dividends). The LLB share closed at CHF 40.35 on 31 December 2016.

Dividend policy

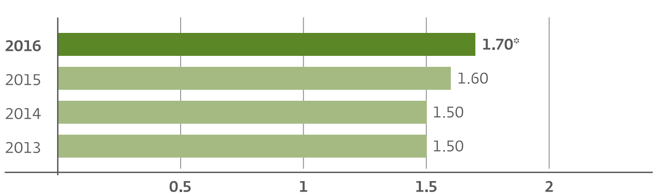
Liechtensteinische Landesbank pursues an attractive, long-term-oriented dividend policy for the benefit of its shareholders. Furthermore, under the StepUp2020 strategy, the LLB Group is committed to safeguarding its financial security and stability. It intends to keep risk-bearing capital at a Tier 1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

The Board of Directors will propose a dividend of CHF 1.70 per share (2015: CHF 1.60) at the 25th Ordinary General Meeting of Shareholders on 12 May 2017, representing an increase of 6.3 percent. Based on the share price as at the end of 2016, this corresponds to a dividend yield of 4.2 percent.

Total dividends to be paid out amount to CHF 49.0 million (2015: CHF 46.1 million). This represents a payout ratio of 47.2 percent for 2016 (2015: 53.4 %).

Dividend per share

2013 – 2016, in CHF



° Proposal of the Board of Directors to the General Meeting of Shareholders on 12 May 2017.

Analysts' recommendations

In 2016, the Zürcher Kantonalbank (ZKB) analyst monitored the LLB share and regularly published studies and assessments on the LLB Group. ZKB kept its rating at "market weight" throughout the reporting year and also after publication of the advance information on the 2016 annual financial statement. Analyst Javier Lodeiro entitled his update in January 2017, "LLB with positive 2016 advance financial statement". The ZKB analyst sees upside potential for the share price in an increase in interest rates, in strategically targeted acquisitive growth, which offers synergistic potential, and in the still relatively low valuation of the LLB share.

In July 2016, Research Partners AG with analyst Rainer Skierka took up coverage of the LLB Group. He issued a buy recommendation for the LLB share, setting a twelve-month price target of CHF 49.00. Subsequent to the publication of the advance information on the annual financial statement for LLB on 19 January 2017 and after an initial revision of the estimates for 2017 – 2018, Rainer Skierka reaffirmed the buy recommendation and raised the twelve-month price target to CHF 53.50.

Prior to the publication of the advance information in January 2017, the private bank Mirabaud, and the analyst responsible Andreas Brun, also took up coverage of LLB. He recommended a "buy" for the LLB share and published a target price of CHF 46.20, which he raised to CHF 46.60 after publication of the advance information. His buy recommendation was based on a combination of the following factors: interest rate sensitivity to rising interest rates, attractive dividend payments, stability thanks to a broad diversification of business activities, solid capital ratios and a high return on required equity.

Communication with the capital market

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

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

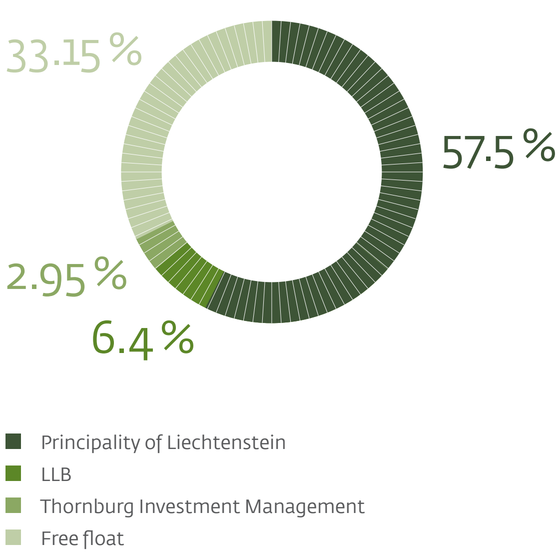
All publicly accessible information about the LLB Group can be accessed on our website at **www.llb.li**. The public is welcome to register for electronically provided share-price relevant information about the LLB Group at **www.llb.li/registration**. Additionally, we publish our information via social media channels (Facebook, Twitter). The annual and interim financial reports are published by us in printed form and have also been available in a comprehensive online version with numerous additional functions since 2005. The Annual Report 2016 can be accessed online at **gb2016.llb.li** (German); **ar2016.llb.li** (English).

The LLB share: facts and figures

in CHF thousands	31.12.2016	31.12.2015
Total bearer shares issued	30'800'000	30'800'000
Number of shares eligible for dividend	28'840'762	28'821'798
Free float (number of shares)	10'232'642	9'971'798
Free float (in percent)	33.2	32.4
Year's high (14 November 2016 / 9 January 2015)	43.65	41.55
Year's low (18 January 2016 / 18 September 2015)	33.35	34.00
Year-end price	40.35	35.85
Total return LLB share (in percent)	17.3	−6.8
Performance SPI (in percent)	−1.4	2.7
Performance SWX Banking Index (in percent)	−15.3	9.5
Average trading volume (number of shares)	8'433	6'908
Market capitalization (in CHF billions)	1.24	1.10
Earnings per share attributable to the shareholders of LLB (in CHF)	3.40	2.87
Dividend per LLB share (in CHF)	* 1.70	1.60
Payout ratio (in percent)	47.2	53.4
Dividend yield at year-end price (in percent)	4.2	4.5
Return on equity attributable to the shareholders of LLB (in percent)	5.9	5.0
Eliglible capital per LLB share (in CHF)	51.7	50.8

* Proposal of the Board of Directors to the General Meeting of Shareholders on 12 May 2017.

Shareholder structure in percent



Brand and sponsoring

The LLB Group is committed to a concept of banking that excels at managing material values in an innovative manner. This is based on a clear system of values. "Liechtensteinische Landesbank" and "Bank Linth" brands are prime value creators in the company.

Brand strategy

"Liechtensteinische Landesbank" and "Bank Linth" brands convey reliability and trust to the clients. They generate motivation and commitment among our employees. And the stakeholders value the stability and security for which we stand.

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

The brand strategy and brand management of the LLB Group is based on the corporate strategy, whereby the aim is to further strengthen brand recognition. Concrete communication measures are determined annually during the planning process.

Brand components

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

Brand name

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

Brand orientation

The LLB Group's StepUp2020 strategy is reflected in the vision and guiding principles of the Group and in the strategic positioning of the two brands, "Liechtensteinische Landesbank" and "Bank Linth" (see chapter "Strategy and organisation", pages 8 – 10).

Vision

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

Guiding principles

The LLB Group's guiding principles, which are derived from this vision, express four binding values that shape our corporate culture: "integrity", "respectfulness", "excellence" and "pioneering". Under these values we understand the following:

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

Brand positioning

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

Liechtensteinische Landesbank 1861

Tradition meets Innovation.

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

Bank Linth

Richtig einfach.

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

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

Brand study

Knowing what values our clients hold is the basis of our brand management. To establish which attributes and brand performances are relevant, the LLB Group had a brand study carried out between the middle of March and the beginning of April 2016. The aim was to determine where the brands stand compared to competing brands. It is planned that brand-tracking data will be collected on a continuous basis in the future.

According to the study, clients ascribe three main characteristics to LLB:

- LLB is very firmly anchored in Liechtenstein.
- LBB is perceived not only as a retail bank, but also as an asset management partner.
- LBB is seen as a traditional, secure and stable bank.

The success of the LLB Group is closely related to client satisfaction. We also receive information on the effectiveness of our client focus from regular analysis of the systematic feedback from all market divisions and customer journey analyses (see chapter "Corporate Center", page 31).

Implementation of brand content

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

Image campaigns

In 2016, the LLB Group focused on the further development of its strategic initiatives. Innovations such as "LLB Xpert Solutions", "LLB Combi" and "LLB Compass" were paired with a high level of investment competence. LLB's strategy funds are among the European market leaders in a long-term comparison. In 2016, these were the topics of image campaigns with unconventional implementation in print and online media, above all in Liechtenstein, but also in selected Swiss and international press titles. In 2016, Bank Linth continued its image campaign under the heading of "Truly simple".

Profile as an employer

In 2016, the LLB Group also enhanced its profile as an employer. The differentiating and essential features of the LLB Group are the corporate culture, job diversity and scope for growth. In the middle of last year, LLB enhanced its employer branding for the purpose of its external image through the creation of new image worlds. The employer branding concept serves to underline and promote the particular character of the LLB Group as an employer. In line with its vision and guiding principles including the associated values, the LLB Group runs a campaign under the claim "Banking as it is meant to be: friendly and professional". The campaign includes HR image ads as well as job advertisements in print and online.

Social channels

LLB and Bank Linth pursue an omni-channel dialogue. This includes their presence in social media, which is where clients, potential applicants and employees exchange views and by doing so help shape the image of the company. In November 2016, the LLB Group strategically reoriented its social media activities in line with a sustainable overall concept.

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

youli

Young adults' lives and days are dominated by the smartphone, the internet and social media. Strong client ties, therefore, already begin for LLB and Bank Linth in the classroom. The LLB Group has provided a platform aimed at young adults, called "youli", since 2014. The platform is active in Liechtenstein and eastern Switzerland and stands for "young Liechtenstein" and "young Linth". We bring infrastructure, coaching, advice, experiences and join-in activities in the language and into the world of the young people (see chapter "Retail & Corporate Banking", page 19).

Sponsoring

Sponsorships and events are gaining in importance worldwide. The instrument enjoys a high level of acceptance among all the stakeholders and conveys credibility and affinity. In 2016, the LLB Group reformulated its sponsoring strategy:

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

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

Young adults and families

LLB and Bank Linth have placed young adults and families at the centre of their activities. The response has been resounding and very positive. In 2016, our commitment was to supporting, above all, sports, culture and society. Here are three examples of sponsorships and events that have been running for over a decade:

- LLB is the main sponsor of FC Vaduz (FCV), which, following its promotion in 2014, has again had a successful season playing in the highest Swiss football league. The club will strive to retain its position in the league in the 2016 / 2017 season. We renewed our sponsorship for a further two years in 2016. We have been supporting FCV for twelve years now, not only because the team provides important impulses for professional sport in Liechtenstein, but because it does valuable work for amateur sport too.
- In July 2016, LLB invited bands and artists from the Rhine Valley region into the inner courtyard of LLB in Vaduz for the open-air "Summer in the Courtyard" series of concerts, which is already in its twentieth year. What began in 1996 with a concert by the Big Band Liechtenstein has developed into a distinctive feature of the musical summer programme in Liechtenstein.
- We have also sponsored the Vaduz Town Run ("Städtlelauf") for many years now – a traditional and popular fun run, staged in May 2016 with participants divided into eighteen categories and covering a running distance of up to 10 kilometres (the main run). A large number of participants and spectators from Liechtenstein and the surrounding region made their way to the centre of Vaduz – referred to by the locals as the "Städtle" ("small town") – to mark the 32nd anniversary of the run.

Funding

By foregrounding project sponsorship as support, the LLB Group underscores the principle that each project retains its content and organisational independence. In 2016, Liechtensteinische Landesbank invested CHF 545,000 (2015: CHF 618,000) in projects in Liechtenstein, and Bank Linth invested CHF 426,000 (2015: CHF 362,000) in projects in Switzerland. This is quite apart from our Group's long tradition of making donations. In this way, LLB has supported non-profit and social organisations for more than 30 years and since 2011 it has done this through the "Zukunftsstiftung der Liechtensteinischen Landesbank AG" (the Future Foundation of Liechtensteinische Landesbank AG), which was founded as part of our 150th anniversary celebrations (see chapter "Responsibilities for society and the environment", page 58).

Employees

First-class and committed employees are guarantors for the success of the company. The LLB Group is determined to continue to develop as an attractive employer and high-performance bank.

Corporate culture and value basis

The implementation of the StepUp2020 strategy (see chapter "Strategy and organisation", pages 9–10) requires continuous improvement in performance. The LLB Group is adapting to fundamental change in the banking sector, but at the same time retains its strong sense of identity and value basis. We firmly believe that an open corporate culture which resolutely upholds values releases positive energy of a kind that makes a true difference to our clients.

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

LLB as employer

As at the end of December 2016, the LLB Group had 858 full-time equivalents (2015: 816). With 587 full-time equivalents (2015: 553) in Liechtenstein, LLB is one of the largest employers in the Principality.

Employee satisfaction

Our employees are the key to fulfilling our performance mandate (see chapter "Responsibilities for society and the environment", page 56). Their opinion is important to us. The in-depth employee survey, which we conduct every two years, belongs to the dialogue. In the 2015 survey, the LLB Group scored above the average for the sector or achieved the "Swiss Employer Award" (SEA) average in all relevant points. In 2015, the commitment of the LLB Group's employees, in other words the sense of identity with and being part of the company, increased to 85 points out of a possible 100 points. More information on the results can be found in the Annual Report 2015.

In September 2016, the LLB Group received a Swiss Employer Award in the category of 250 to 999 employees. The award, a benchmarking initiative based on the largest employee survey in Switzerland, is regarded as a pioneering instrument. For the further development of the LLB Group, it is important to know whether the organisational framework is optimal and promotes and supports the client and performance orientation of the employees. The next employee survey is planned for May 2017.

LLB as a regional employer

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

At the same time, professionals commute every day from eastern Switzerland (2016: 206; 2015: 180) and the Austrian state of Vorarlberg (2016: 74; 2015: 69) to their place of work at LLB in Liechtenstein. LLB is a major regional employer in the St. Gallen Rhine Valley. Bank Linth recruits almost all of its professionals from the Swiss regions of Lake Zurich, Sarganserland and Winterthur.

Internal communication

At a time of fundamental change in the banking sector, the LLB Group has developed a focused business model and entered a new growth phase in 2016. Clear and consistent communication increases acceptance among the employees.

The Group Executive Board communicated the objectives and the approach of the new StepUp2020 strategy already in September 2015. In the communication concept of October 2015, the business area Group Corporate Communications & General Secretary together with Group Human Resources formulated internal communication measures that help to foster corporate culture and staff motivation.

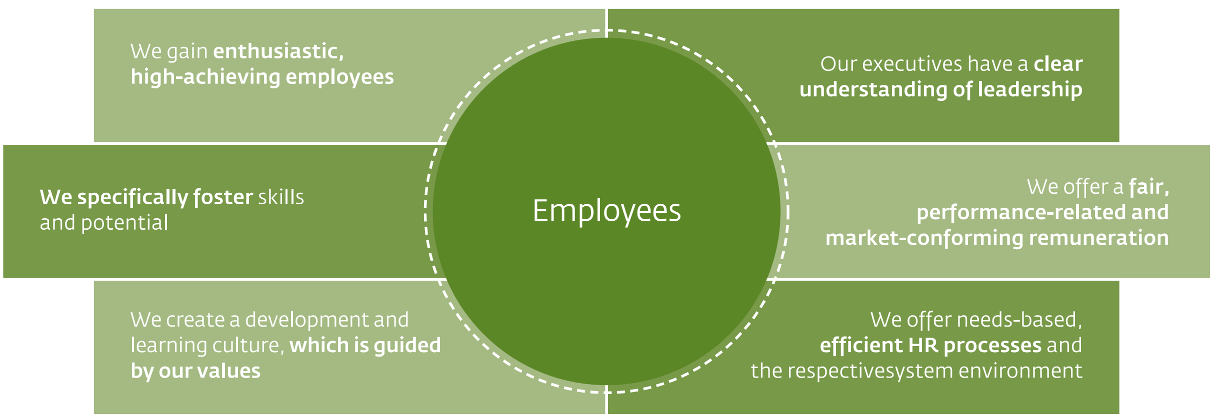
The Group CEO informs through a quarterly group-wide newsletter distributed via the intranet. He holds an information meeting for all LLB Group employees at least once a year. There is also an annual Group Night, plus events held by our six divisions. Contributions from the CEO and Group Human Resources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

Promise of performance and employee development

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

In 2016, Group Human Resources in its strategic concept made a promise of performance to give enthusiastic individuals the chance to advance themselves and the LLB Group so that both achieve a top-class performance.

Strategic target vision



Working environment in focus

The LLB Group wants to enhance its profile as the employer of choice. It implemented a range of measures to this end in 2016, including the promotion of health in the workplace, the improvement of the physical working environment and the flexibility of working hours and location.

Workplace of the future

The headquarters of Bank Linth LLB AG in Uznach and the branch offices in Rapperswil (SG) and Siebnen (SZ) will be converted to create the workplace of the future (see chapter “Retail & Corporate Banking”, pages 19–20). The “bank of the future” is designed for clients and employees along the same principle: open, transparent, accessible and with short paths to promote communication and cooperation. The bank employee of the future will move between thinking cabins, stand-up desks and a workshop area. The reopening of the two branch offices and the headquarters is planned for June 2017.

Quality of life in the workplace

In 2016, the LLB Group developed measures to create a health-promoting working environment. Various initiatives work together to increase the quality of life in the workplace, to reduce stress and to improve the health of employees. Among these initiatives are seasonal fruit, which have been provided free of charge since the beginning of 2017, as are the water stations with integrated filter system (see chapter “Responsibilities for society and the environment”, page 58). To support sporting activities, showers and changing facilities were installed at our business location in Vaduz at the end of 2016. All desks are also being replaced by height-adjustable stand-up desks.

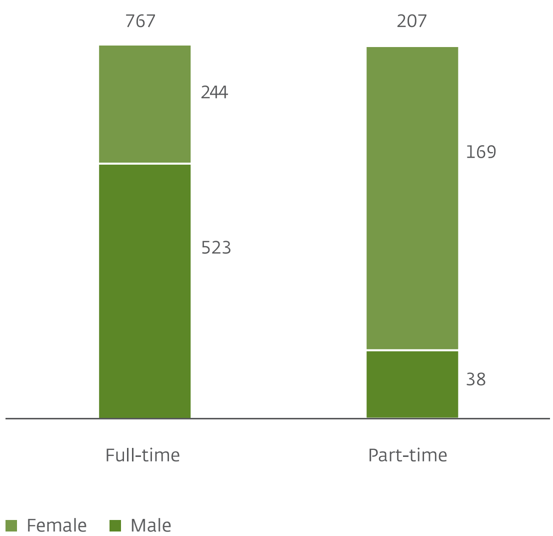
Information events on health topics and sport activities are planned for 2017. In 2016, the Working Atmosphere and Health Steering Committee was set up. Its aim is, on the one hand, to increase job satisfaction and boost staff motivation and, on the other, to reduce work-related absence, which will save costs.

Health and safety

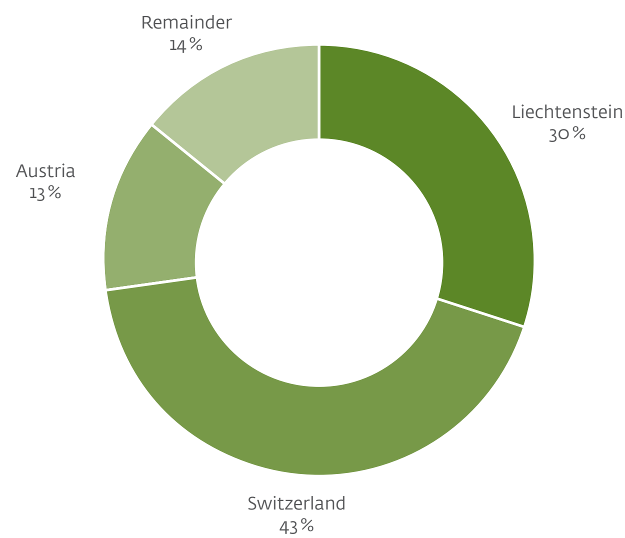
The absenteeism rate gives an indication of the incidence of accidents and illnesses: in 2016, there were 130 (2015: 142). Our target rate is between 2 and 2.5 percent. In 2016, the absenteeism rate was 1.97 percent (2015: 2.49 %). 80 percent of absenteeism costs were due to illness. In 2016, 47 employees with long-service anniversaries went on a sabbatical for up to four weeks (2015: 29). Most utilised the maximum number of days possible for rest and recuperation and for broadening their horizon. Taking such time out helps maintain flexibility, commitment and productivity.

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

Permanent employees by employment type



Employees by nationality



Return to work

Surveys conducted by the European Agency for Safety and Health at Work (www.osha.europa.eu) show that in Europe around 50 percent of sickness leave is due to stress in some form or other. What is more, mental stress can also often result in physical stress and vice versa. The LLB Group takes this issue seriously and invests in the provision of practical assistance for the occupational integration, internally or externally, of employees.

Our aim is to reduce short- and long-term absences and to assist the return to work. We offer support to employees returning to work after a long absence and to those with serious health problems. Employees in difficult work or life situations are able to gain free and anonymous access to psychological support. This service enables employees to maintain or regain their productivity.

Compatibility of work and life situation

Our employee policy aims to create an optimal working environment. This includes the compatibility of work and private life in different life situations. In 2016, we explored the possibilities for greater flexibility of working hours and location, which we will implement in 2017. At the same time, we support 80 percent part-time working, in leadership positions too, and paternity leave. We also plan to develop the modern eWorkplace further so as to improve the compatibility of work and life situation.

And in the summer of 2017, a day nursery for the children of Liechtenstein bank employees will be opened in Vaduz. Given the growing skills shortage in the region and the increasing demand for childcare places, it is an important move to ensure that Liechtenstein banks remain among the most innovative and attractive employers in the future, too.

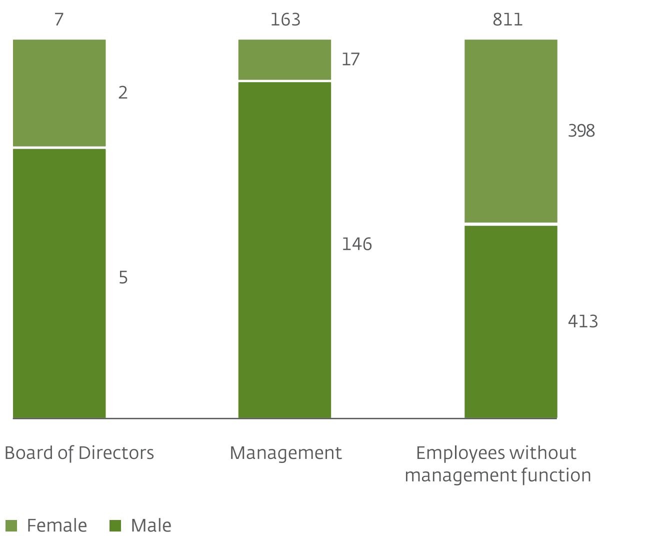
Diversity of employees and managers

The LLB Group employs people from 39 nations. Our success is based on the diversity of our employees and managers. The LLB Group aims to create an environment of appreciation for all employees, regardless of their nationality, age, gender, educational background, etc. The different skills, cultures and viewpoints make us a pioneering company.

Even if we do not have a specific programme in place to promote diversity, people of different nationalities working together has been commonplace at our Group for many years. In 2016, 30 percent of our employees were Liechtenstein nationals, 43 percent Swiss and 13 percent were Austrian nationals. We are committed to ensuring that our client base is reflected in our employee mix (see "LLB as regional employer", page 42). This also applies to our traditional cross-border markets in Germany and the rest of Western Europe as well as to the growth markets of Central and Eastern Europe and the Middle East.

The proportion of women working for the LLB Group is relatively high at 42 percent, though they are still under-represented in leadership positions. However, the growing number of well-educated

Number of employees by gender



Number of employees by age group

women is bound to effect change in this area in the next few years thanks to more flexible working models. The Board of Directors and management support the culture of diversity and in July 2016 recruited the first woman to the ranks of senior management at LLB and appointed her to the Group Executive Board (see chapter "Corporate governance", pages 86–88).

Women in management positions:
- Executive management: 5 men, 1 woman
- Senior management: 23 men, 1 woman

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

Training and professional education

For the LLB Group, training and professional education is an important instrument for raising its competitiveness. In 2016, we invested CHF 1.6 million (2015: CHF 1.2 million) in the targeted development of managers, talent and competences. Effectiveness monitoring conducted by the organisational unit Group Human Resources showed that further progress had been made in 2016.

The culture of "challenging and promoting" has proved successful. In 2016, 48 percent of the 23 newly vacant leadership positions could be filled internally by an existing employee. At the same time, new entrant managers and employees have a high level of qualifications: 74 percent either graduated from a university or a university of applied sciences or have higher professional training. The opportunities that we offer help us to recruit and retain committed employees and managers.

Management culture

Courses are held every two years to promote the further development of our management culture. In 2016, our 160 managers took part in the "Leading to success II" training course and dealt intensively with our vision, our guiding principles and the StepUp2020 strategy. They were essentially introduced to the concept of situational leadership. The model can be applied flexibly to different situations and different development levels of employees. Managers adapt their behaviour as the particular situation requires.

Client adviser certification

A strong client relationship remains the most important success factor in banking in the long-term. The LLB Group accordingly invests heavily in the know-how of its employees. By the end of 2020, all client advisers will have completed training programmes in accordance with the standards of the Swiss Association for Quality (SAQ). A pilot group started the certification training in March 2016 and finished it at the end of 2016, achieving a 100 percent pass rate.

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

Measuring the success of staff development

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

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

Professional training

When it comes to the training of its junior employees, Liechtensteinische Landesbank lives up to its responsibility as one of the largest providers of training in Liechtenstein. In 2016, 38 apprentices (2015: 42) at the LLB Group benefited from high-quality dual professional training, which combines theory and practice. The classic basic training remains the main pillar of the development programme for our junior employees. We believe that the provision of a broad education is a key task, especially as through the Federal Vocational Baccalaureate (FVB) it allows young adults to keep their options open to go to a university of applied sciences or a traditional university.

Bachelor, work and study, and master programmes

Since 2014, the LLB Group has intensified its focus on university graduates. Each year there are three different programmes available for seven candidates: practical-based direct entry for graduates (2016: 3), a work and study programme for postgraduates in the final phase of their studies (2016: 2) and a trainee programme for postgraduates (2016: 4). Talented young people get to know our company in-depth from the inside as part of an eighteen-month on-the-job trainee programme covering three areas of work – in 2016, we took on three trainees with an above-average master's degree.

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

Fair compensation

The LLB Group offers attractive employment conditions. It spent CHF 141 million (2015: CHF 124 million) on salaries and social contributions in 2016 (see Notes to the consolidated income statement, page 132). We have a modern compensation system that is considered exemplary in the banking sector (see chapter "Compensation report", pages 93–101). We place emphasis on fair compensation that explicitly rewards skills and performance. Women and men in the same position and at the same performance level are in the same pay scale and wage model. This is valid for all our business locations.

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

Representation of Employees

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

Personnel Pension Fund Foundation

In 2016, all 607 employees of our corporate Group who work in Liechtenstein were covered by the retirement, life and disability insurance plans of the independent Personnel Pension Fund Foundation of Liechtensteinische Landesbank. The pension fund and its defined contribution scheme offer three attractive savings plans that go beyond the requirements of the law (Occupational Pension Act (OPA)). In addition, LLB's contributions as an employer amount to two-thirds of the financing of the fund.

As at the end of December 2016, the liquidity ratio of the LLB pension fund stood at 109.3 percent (as at the end of December 2015: 107.8 %) and had thus increased by 1.5 percent on the previous year. The return on investment was 3 percent (2015: minus 0.5 %). The accumulated capital bore interest of 2 percent in 2016. The pension plan assets amounted to CHF 290.5 million (2015: CHF 277.4 million).

The low interest rate environment and the steady increase in life expectancy have induced the Board of Trustees to gradually reduce the pension conversion rate from 1 January 2018 for the retirement age of 64 by 0.1 percent per year to 5.1 percent (currently 5.6 %). As of 1 January 2023, the normal retirement age of the Liechtenstein AHV (state pension) will be raised to 65. At that time, the pension conversion rate will amount to 5.22 percent (currently 5.72 %).

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

The LLB Group headcount statistics

	2016	2015	2014	2013	2012
Employees					
Number of employees (full-time equivalents)	858	816	893	925	1'090
Full-time employees	718	674	789	784	909
Part-time employees	207	202	244	279	336
Apprentices	38	42	47	50	52
Trainees incl. BEM interns	11	7	6	4	4
Key figures					
Staff turnover rate in percent	10.4	12.6	11.5	21.8	15.4
Average length of service in years	9.6	10.7	9.7	8.2	7.6
Average age in years	40.2	39.9	40.2	39.8	39.4
Diversity and equal opportunities					
Number of nations	39	31	34	29	30
Share of women in percent	42	44	45	45	47
Training and professional education					
Training costs in CHF thousands	1'570	1'195	1'191	1'291	1'452

360° financial planning

Everyone has their own individual goals, aspirations and questions when it comes to their financial future. In Liechtenstein, we are the only bank offering comprehensive 360° degree financial planning.
With LLB Compass, we have further developed our offering with solutions for all phases of life and stages of the corporate life cycle; and we will launch this service in Switzerland with Bank Linth Compass in 2017.

Holistic financial planning covers all the important issues such as assets, financing, retirement planning, real estate, taxes and estate planning.
llb.li/kompass

Monika Jöhri, an adviser to individual clients, knows what life revolves around: "360° degree financial planning helps both private and corporate clients to achieve their future financial goals."
Meet Monika Jöhri
at ar2016.llb.li/turn


turn

Regulatory framework and developments

Liechtenstein stands for access to markets and for legal certainty. With the implementation of the Automatic Exchange of Information (AEOI), it is one of the so-called Early Adopters of a comprehensive cooperation in international tax matters.

Implementation of regulatory frameworks 2007–2018

- **07** MiFID I
- **08**
- **09** Implementation of 3rd EU AMLD; Liechtenstein Declaration
- **10**
- **11** Cross-border framework; UCITS IV
- **12**
- **13** AIFM Act; Complete revision of DDA
- **14** FATCA; Entered Agreement on AEOI; IMF / Moneyval evaluation
- **15** 4th EU AMLD; Refinement of cross-border framework; AEOI: Agreement signed by Liechtenstein / EU
- **16** UCITS V; IUA
- **17** Implementation of AEOI; Revision of DDA
- **18** MiFID II

International tax topics

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

Automatic Exchange of Information (AEOI)

Liechtenstein was among the so-called Early Adopter Countries that entered the Agreement on the Automatic Exchange of Information (AEOI) on 29 October 2014. To date, 101 countries and financial centres have signed up to the AEOI. On 22 August 2016, Liechtenstein took another important step towards the implementation of its financial centre and tax strategy. The Government deposited its instrument of ratification for the Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters (MAC) at OECD in Paris.

Exchange of data in 2017 and 2018

The first exchange of bank data with EU countries (excluding Austria) will occur in 2017 for the 2016 fiscal year. On 1 December 2016, a Mutual Assistance Convention, which is a comprehensive multilateral instrument for tax matters, came into force. On the basis of this agreement, the Automatic Exchange of Information (AEOI) will be implemented with 32 other states from 2018.

AEOI Liechtenstein / Switzerland

Switzerland and the EU ratified the AEOI agreement on 26 September 2016. Swiss banks will collect data from 2017, which will be exchanged with the EU member states and ten other states as of 2018.

On 1 February 2017, the Swiss Federal Council decided to implement the Automatic Exchange of Information (AEOI) in tax matters with other partner countries. Liechtenstein is one of these planned partner countries.

In the coming months, Liechtenstein will determine its next AEOI partner states. To date, the Landtag (Parliament) has approved the adoption of the AEOI with 60 jurisdictions in all. The first automatic exchange of data with the EU states (excluding Austria) will occur in 2017. The AEOI shall come into force for the other countries on 1 January 2018, with the first exchange of data occurring in 2019. The implementation of the AEOI with Switzerland, as well as the the activation of the AEOI with other partner states, are subject to the approval of the Landtag (Parliament).

BEPS Project

Liechtenstein is implementing the new international standards arising from the BEPS Project and has amended the tax law accordingly. BEPS stands for "Base Erosion and Profit Shifting". In an effort to take action against tax avoidance in multinational enterprises, the OECD and the Group of Twenty (G20) countries have drawn up 15 recommendations.

The goal of the BEPS Project is to support countries in protecting their tax base and at the same time to ensure that legal certainty for taxpayers is guaranteed by internationally recognised rules. Liechtenstein emphasises here the importance of ensuring a level playing field among countries.

Double taxation agreements and tax information exchange agreements

Bilateral, long-term cooperation agreements form the basis of Liechtenstein's financial policy. By the end of 2016, tax information exchange agreements (TIEAs) were concluded with 27 countries, and double taxation agreements (DTAs) for cross-border administrative assistance in accordance with OECD regulations were concluded with 17 countries.

- **Liechtenstein / Switzerland**

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

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

- **Liechtenstein / Austria**

Due to the derogation granted to Austria applicable within the EU, the AEOI agreement will not be applied until 1 January 2017. Austria will exchange information on new clients from September 2017. Data collection started in October 2016 and an extended exchange to include existing clients will take place in September 2018.

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

FATCA

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

Cross-border banking

The international orientation of the Liechtenstein financial centre entails a complexity of cross-border banking regulations. Institutes providing cross-border financial services that are supervised by the Liechtenstein Financial Market Authority (FMA) are obliged to meet the FMA's requirements and to act in accordance with the regulatory provisions of the country in which the client is domiciled. In August 2015, the FMA formulated a uniform approach to dealing with cross-border risks, with the aim of reducing legal and reputational risks.

In 2016, the LLB Group further refined its cross-border framework, which had been completely revised in 2015, to mitigate the legal risks arising from cross-border activity. During the reporting year, Group Legal & Compliance conducted numerous training courses for client advisers in the particular markets relevant to them. The LLB Group's internal rulings ensure that employees comply with the regulations of the respective target country when engaging in cross-border activities.

Since 2015, the LLB Group has directed the focus of its international activities more towards strategically and economically important countries. It is concentrating its efforts in the home markets of Liechtenstein, Switzerland and Austria, in Germany and selected markets in Western Europe, as well as in the growth markets of Central Europe, Eastern Europe and the Middle East. We are simplifying our client service in international business by focusing on certain strategically and economically important countries.

Regulatory environment

Protection against money laundering

The fight against money laundering and terrorist financing has been a top priority for Liechtenstein for years, which has a zero-tolerance policy towards such matters. As a member of the EEA, Liechtenstein has fully implemented the EU's third Anti-Money Laundering Directive (2005 / 60 / EC) as well as the Commission Directive (2006 / 70 / EC) concerning both the definition of the term "politically exposed person" and the determination of the technical criteria for simplified due diligence obligations.

The European Parliament adopted the fourth EU Anti-Money Laundering Directive on 20 June 2015, it came into force on 25 June 2015 and also applies to Liechtenstein as an EEA member. Liechtenstein is currently in the process of transposing the new directive into national law. The revised Due Diligence Act (DDA) ("Sorgfaltspflichtgesetz (SPG)") is expected to enter into force on 1 September 2017.

Liechtenstein's Criminal Law on Corruption was revised in March 2016 and is the basis for the ratification of the Council of Europe's Criminal Law Convention on Corruption. With the revision, Liechtenstein makes bribery in the private sector a predicate offence for money laundering and implements the international standards of the Council of Europe and the United Nations Organisation (UNO) on the fight against corruption.

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

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

MiFID II / Liechtenstein

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

The Amendment (MiFID II) and the accompanying Regulation (MiFIR) will come into force in the EU on 3 January 2018, one year later than originally planned. They provide for further regulation of the financial markets and investment services. Furthermore, MiFIR regulates trading transparency, an area that was not at the focus of MiFID. Besides the refinement of regulations since MiFID, the aim of MiFID II is to create greater transparency in the markets and to increase investor protection.

High-frequency trade will be made more transparent and subject to stricter supervisory controls, while position limits on commodity trading will be stricter. In future, throughout the EU, the appropriateness and suitability of advice given to individual clients at bank branches must be checked and a more comprehensive recording made of telephone consultations. The appropriateness and suitability checks and the recordings must document why a financial product was recommended and how it matches the client's risk profile.

FinSA / Switzerland

Switzerland intends to conceptually reshape the guiding principles of its financial centre in order to transpose the MiFID II, in particular, into national law. On 4 November 2015, the Federal Council adopted the dispatch on the Financial Services Act (FinSA) and on the Financial Institutions Act (FinIA). The FinSA governs the prerequisites for providing financial services and offering financial instruments. The FinIA makes provision for an activity-based, differentiated supervisory regime for financial institutions requiring authorisation. The FinSA and the FinIA shall serve to provide modern investor protection and are expected to come into force in 2018.

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

Access to the EU market

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

UCITS V

With the transposition of the EU's Directive on Undertakings for Collective Investment in Transferable Securities (UCITS V) into the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act), traditional funds will be subject to re-regulation. Its implementation essentially imposes extensive obligations on the depositories of UCITS funds as well as increased liability.

AIFM

Access to the EU market is central to the competitiveness of both the Liechtenstein financial and investment fund centre. Liechtenstein investment companies have been legally entitled to administer and sell UCITS funds across national borders for several years as a result of the adoption of EU law in the EEA Agreement. Since October 2016, Liechtenstein investment fund providers have also been able to use the EU passport for alternative investment fund managers (AIFMs).

The AIFM Directive serves to increase the transparency of the activities of the alternative investment fund managers and the alternative investment funds (AIFs) they manage vis-à-vis investors and the supervisory authorities. A number of alternative investment fund managers have already been issued with a relevant licence by the Liechtenstein Financial Market Authority (FMA).

IUA

The latter replaces the IUA from 2005 and applies to four clearly defined domestic investment fund categories. The new investment fund law regulates most notably the fund business model for single investors that was specially set up in Liechtenstein.

Legal & Compliance interface

The continually changing regulatory environment, the diversity of regulations and their increasing complexity require constant further development. To this end, LLB has increased its personnel resources and made organisational changes to the Group Legal & Compliance Business Area. Since 1 January 2016, the "Regulatory Tax Matters" area of the Tax department has been integrated into the Group Legal & Compliance Business Area and renamed "Group Tax Compliance".

LLB thus has a traditional legal department, Group Legal, plus three specialised compliance departments:

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

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

Responsibilities for society and the environment

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

Sustainability mandate

The LLB Group's business policy, which is focused on continuity, forms the basis for sustainable action. Sustainability to us means balancing economic action with social and environmental responsibility. The Annual Report 2016 contains an integrated "Stakeholders report", which was prepared in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines – "Core Option" for the second time, the first time being in 2015. By doing this, we are highlighting our proactive focus on sustainability.

At the end of 2014, we compiled a set of about 21 sustainability topics. In 2015, in accordance with version 4.0 of the GRI, we established, reviewed and evaluated a list of material aspects and indicators and focused on strategic priorities. We reviewed and slightly supplemented the material aspects in 2016.

Client-oriented

The values of "integrity", "respectfulness", "excellence" and "pioneering" (see chapter "Strategy and organisation", page 9) underpin the LLB Group's actions. We are client-oriented and, as such, are investing in the further development of the physical and electronic contact points (see chapters "Retail & Corporate Banking", page 19; "Corporate Center", page 30). Here we are paying particular attention to meeting our clients' security needs and our data protection standards for the use of the various distribution channels at all times.

Contribution to the sustainable development of Liechtenstein

The LLB Group, as a part of the community, is active in different areas of culture, ecology and society (see chapter "Brand and sponsoring", page 41). Our contribution to the sustainable development of a prosperous Liechtenstein forms the basis for the fulfilment of our performance mandate. We indirectly promote Liechtenstein as a workplace and contribute to the prosperity of the people (see chapter "Retail & Corporate Banking", page 19).

In dialogue with stakeholder groups

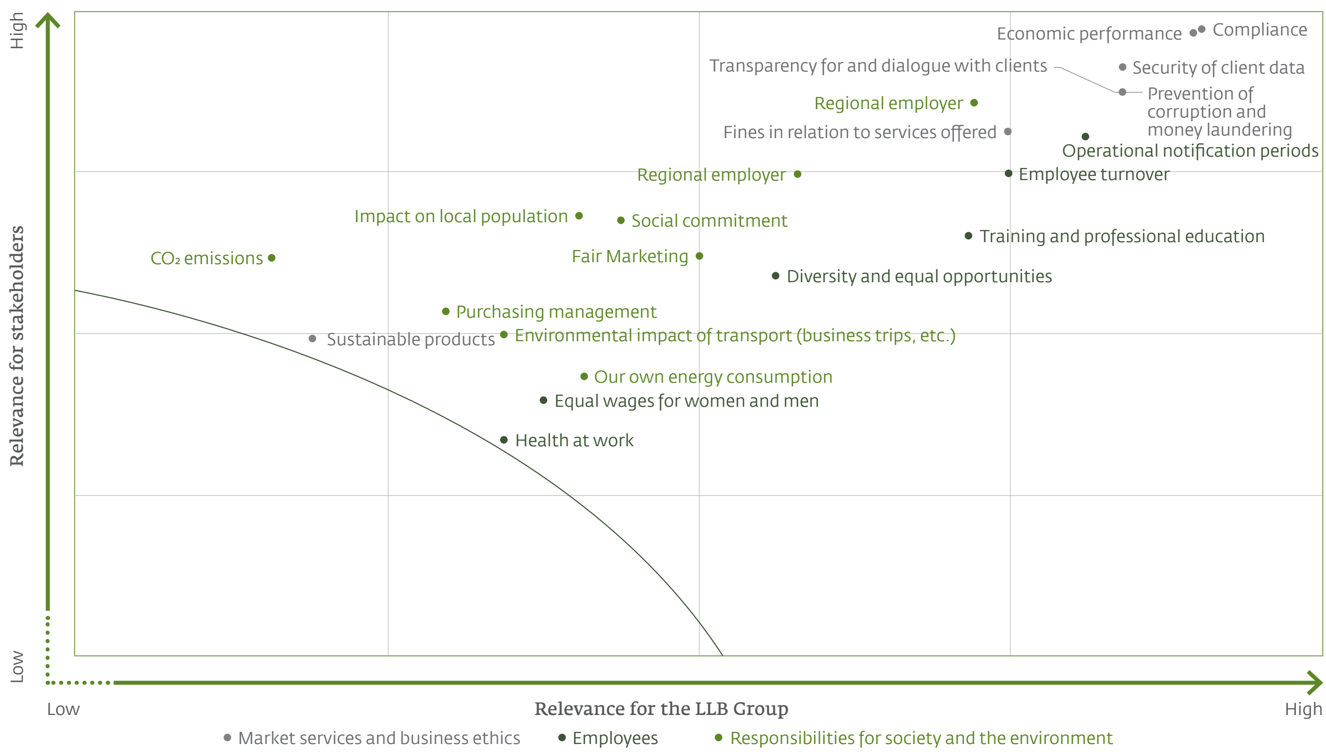
For the LLB Group, sustainability as a corporate responsibility means meeting the expectations of the different internal and external stakeholder groups. In 2016, the Group Corporate Communications & General Secretary Business Area worked together with the line and support units of the core team to further develop the key sustainability topics. While the members of this core team represent the views of the LLB Group, they are in regular dialogue – personally, by electronic media or telephone, or at information meetings, working sessions, roadshows or conferences – with the different stakeholders who we influence and who, in turn, influence the course of our business. The stakeholder groups are in particular:

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

- **The Principality of Liechtenstein:** The Principality of Liechtenstein is our majority shareholder. The Chairman of the Board of Directors of the LLB Group and the Group CEO submit a bi-annual report on the course of business to the Head of the Government of Liechtenstein. Once a year, the Board of Directors and the Group Executive Board exchange views with the entire Government. It, in turn, reports to the Finance Commission of the Landtag (Parliament) on the implementation of the investment strategy of Liechtensteinische Landesbank AG (see chapter "Corporate governance", page 68).

This page includes, inter alia, disclosures on Global Reporting Initiative (GRI) indicator G4-24, G4-25, G4-26 and G4-27.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 63.

Materiality matrix for sustainability aspects



- **Shareholders:** In addition to the annual General Meeting of Shareholders, we exchange views with our shareholders at investor presentations and in regular meetings with the Liechtenstein Government as the representative of the majority shareholder, the Principality of Liechtenstein (see chapter "Corporate governance", page 91).

- **The public:** We are in continuous dialogue with the public through our employees. We also foster an intensive exchange with media representatives (see chapter "The LLB share", page 37).

- **Partners and non-governmental organisations (NGOs):** Through our membership of associations and organisations, we maintain a dialogue with partners and NGOs (see chapters "Regulatory framework and developments", page 50, "Institutional Clients", pages 26 – 27, and "Responsibilities for society and the environment", pages 57 – 58).

- **Employees:** We obtain our employees' opinions by engaging in dialogue during the annual objective-setting process as well as in the employee survey, which is conducted every two years (see chapter "Employees", pages 42 – 43).

Key sustainability topics

Sustainable business management and long-term responsibility are core values to us. The key factors in selecting and prioritising topics for the materiality matrix were: the external impact; the impact on the stakeholder groups; the relevance to the existence of the banking group; and public perception. For the key sustainability topics, we defined the relevant GRI aspects and indicators. The LLB Group closely monitors the topics included in the materiality matrix (see chart above) and addresses them individually. The topics positioned in the top right of the matrix are of particular significance. In 2016, we further developed the process of identifying and managing sustainability topics.

This page includes, inter alia, disclosures on Global Reporting Initiative (GRI) indicator G4-18, G4-19 and G4-23.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 63.

Performance mandate

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

Financial stability

Liechtenstein is among twelve countries worldwide with an AAA rating. On 27 January 2017, Standard & Poor's (S & P) reconfirmed its best rating for the country's creditworthiness. Liechtenstein has no national debt, instead it has large reserves thanks to the state's strict budgetary discipline. A functioning banking sector and stable financial centre with strong international connections contribute substantially to the financial results of the state.

The financial services sector, accounting for around 24 percent of GDP, is the most important sector in the Liechtenstein economy after industry. The banks are particularly distinguished by their financial stability. Having a sufficiently high-quality equity base at its disposal is part of the LLB Group's identity. Today it already meets the core capital ratio required from 2019 at the latest under Basel III regulations (see chapter "Finance and risk management", page 13).

Economic contribution

The LLB Group bases its business policy on market principles and pursues the objective of generating a reasonable profit. The Principality of Liechtenstein and its population participate in profits through regular distributions. The economic contribution – dividends, direct taxes and the compensation payment for the state guarantee – of the LLB Group amounted to CHF 38.4 million in 2016 (2015: CHF 31.7 million). LLB receives no financial support for its banks or Group companies in Liechtenstein, Switzerland and Austria from any government.

LLB's clients benefit from additional security, for which LLB makes a yearly compensation payment to the Principality. In 2016, this amounted to CHF 1.2 million (2015: CHF 1.3 million). LLB is the only bank in Liechtenstein which carries a state guarantee for savings account deposits and medium-term notes (cash bonds). This is governed by the Law of 21 October 1992 on Liechtensteinische Landesbank (LLBG). According to Art. 5 of the LLBG, the Principality of Liechtenstein is liable for savings account deposits at the Landesbank and for medium-term notes (cash bonds) of the Landesbank, insofar as the bank's own resources are not sufficient.

Sustainable products and services

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

Risk-conscious growth in the mortgage lending business

The development of the real estate and mortgage market plays a key role in the economy. In Liechtenstein, LLB is the market leader in the mortgage lending business with a market share of around 50 percent. To achieve sustained, profitable growth, it focuses in Liechtenstein and Switzerland on the quality of the mortgage portfolio and risk-conscious growth carefully tuned to suit the region and the type of property (see chapter "Finance and risk management", page 12). In 2016, mortgages accounted for 86.5 percent (2015: 87.2 %) of loans granted by the LLB Group, corresponding to CHF 10.0 billion (2015: (CHF 9.6 billion).

Private financial planning

LLB is the only bank in Liechtenstein to offer comprehensive private financial planning. Changing asset structures, the growing diversity and complexity of financial instruments, the globalisation of financial markets and changes in retirement planning are new aspects that we have to take account of. The need for professional and holistic private financial planning is growing. In 2016, LLB refined its service offering for all stages of life and business under the name "LLB Compass". Bank Linth is launching its comprehensive advisory service in Switzerland in spring 2017.

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

LLB Liechtenstein Pension Fund Foundation

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

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

The LLB Liechtenstein Pension Fund Foundation has established itself as a competence centre. As the youngest pension fund in the Principality, it ranks as the number two among the independent collective foundations. At the end of 2016, it had significantly increased pension fund capital under management to CHF 620 million (2015: CHF 501.9 million). It provided services to 420 (2015: 356) companies with 4,970 (2015: 4,510) active insured persons and had a liquidity ratio of 106 percent (2015: 105.5 %). The foundation has a very good structural ratio: for each pensioner there are 21 active insured contributors (2015: 27 active insured contributors).

Sustainable investment

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

Sustainable asset management

The Asset Management Business Area of the LLB Group has developed the "Sustainable asset management" service offering. When constructing a portfolio, certain sectors such as tobacco, alcohol, nuclear energy and armaments are excluded. Companies which do not comply with specific social or environmental standards as well as countries which are subject to sanctions are also excluded. We focus on traditional investment categories in order to ensure socially responsible investments.

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

Risk management

Integrity, performance and trustworthiness form the basis of responsible and transparent corporate governance. Effective risk management, that means permanent and systematic monitoring to minimise risk, also plays a decisive role (see chapter "Finance and risk management", page 11). By specifying a future-oriented risk strategy, the Board of Directors establishes the guidelines for dealing with risks. Moreover, the Board continues to develop the already high standards of corporate governance (see chapter "Corporate governance", page 68). The applicable laws, directives, guidelines and market norms as well as supervisory and internal regulations form an essential base. Group Legal & Compliance advises the business areas, identifies and analyses compliance risks, and ensures that all staff comply with the rules of conduct (see chapter "Regulatory framework and developments", page 53).

The non-profit Future Foundation

Sustainability in everyday life

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

Trust, responsibility and reliability are important to the LLB Group. The company is closely connected with the people and the economy of Liechtenstein and the adjacent regions. In addition to project-specific contributions, the Future Foundation contributed to society by donating a total of CHF 76,500 to social organisations in 2016. The Future Foundation is a member of the network of the "Vereinigung liechtensteinischer gemeinnütziger Stiftungen" (Association of Liechtenstein Non-Profit Foundations), which aims to promote the idea of entrepreneurial philanthropy.

Projects in 2016

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

Since 2011, the Future Foundation has made over 100 donations as well as contributions to 30 projects in all totalling over CHF 750,000. Since the projects receiving funding contributions are mostly small, focused and located in the market regions of LLB and Bank Linth (Liechtenstein and eastern Switzerland) as well as LLB Österreich, the funding is often critical to the beneficiary organisations' ability to realise them. In 2016, the Future Foundation funded four projects:

- **mychoice.info:** The online platform has short films showing the different apprenticeships available in Liechtenstein and Switzerland, which companies offer them and what the particular challenges and development opportunities are. Using this sound information, young people, their parents and teachers can get an idea about apprenticeships.
- **Association NetzWerk – "Freiwilliges Soziales Jahr Liechtenstein" (voluntary year of community service):** This project offers young people the opportunity to complete a supervised and professionally organised voluntary social service year at a social institution. Five people were able to successfully complete the social year and, as a result, further develop their future perspectives.
- **"Stiftung Zukunft Liechtenstein" foundation:** The foundation sees itself as a think tank for addressing economic and socio-political topics relevant to the sustainable development of Liechtenstein and to securing its future. To this end, it fosters the interaction between science, economics and politics.
- **Alte Metzg Schaan:** LLB funded the Christmas campaign to distribute food aid to people in need.

Drink tap water – donate drinking water

In 2016, LLB joined "Drink & Donate" – a drinking water project. Since February 2017, hydration stations that use fresh tap water have been provided at its headquarters in Vaduz. By consuming tap water instead of transporting branded bottled water, we want to reduce our ecological footprint and protect the environment.

The around 650 LLB employees in Vaduz use the tap water, which according to laboratory tests is of excellent quality, more conscientiously. And they can make a sustainable contribution on fair-terms to supporting people in developing countries who do not have access to clean drinking water. LBB donates CHF 60 per employee per year to "Drink & Donate", a Zurich-based non-profit organisation.

Mobility management

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

Promoting the use of public transport

We encourage our staff to use public transport and, if possible, not to drive to work, but to form car pools or switch to more environmentally friendly alternatives. Road traffic in Liechtenstein is increasing at an annual rate of more than 3 percent. Densely built-up areas mean that carriageways and parking spaces cannot be expanded in many cases. We introduced car park management at the headquarters in Vaduz as far back as 1997.

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

It subsidises half of the cost of an annual travel pass with LIECHTENSTEINmobil (LIEmobil), the Liechtenstein bus company, as an incentive to switch to public transport. Employees commuting to their workplace from outside the area served by LIEmobil buses receive an allowance for using regional public transport. Staff are also encouraged to take the bus or ride our company bicycles to meetings and events in Liechtenstein. There are a total of six vehicles and two trailers available for work-related trips, errands and building maintenance.

Cycling to work

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

State-of-the-art video technology

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

Sustainable procurement

Purchasing management

The growing complexity of supply chains makes purchasing management in conjunction with sustainable business management an important discipline.

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

We increasingly raise our employees' awareness to consider sustainability when choosing office supplies, office equipment and suppliers. Our purchasing management is continuously being developed. This will support our mission to integrate the factor of sustainability, analyse savings potential and reduce costs. Well over 50 percent of our suppliers are based in Liechtenstein or eastern Switzerland. Our local buyers (category managers) check that new suppliers are observing human rights and ecological standards. When procuring IT products, the category manager for the purchasing class "IT & market data (IT)" checks the resource consumption for operating and disposing of the equipment.

Energy efficiency and climate protection

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

The recording of energy consumption and greenhouse gas emissions is being continuously optimised. For the first time, we also collected data for Bank Linth for 2016 and retrospectively for 2015. At our Liechtenstein location, the data basis was enlarged in 2016 to include the newly acquired Aeule Nord and Marxer buildings. This necessitated a revised presentation of the environmental indicators.

Energy use causes greenhouse gas emissions. The LLB Group wants to contribute to climate protection by increasing energy efficiency and to save costs at the same time. The organisational unit Facility & Security Management identifies potential energy savings and evaluates the effect of efficiency measures such as the selection of technical equipment, the "Green Datacenter" being a typical example.

"Green IT" data processing centre

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

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

This page includes, inter alia, disclosures on Global Reporting Initiative (GRI) indicator G4-22.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 63.

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

The power consumption of the cooling devices plays an essential part in terms of power usage effectiveness (PUE). We aim to achieve a PUE value of below 1.5, which would be half the original energy usage. In 2013, we had already achieved a PUE value of 1.54; in 2014, we achieved a PUE of 1.46; in 2015, despite the hot summer, we managed to reduce it further to 1.41. In the reporting year, the PUE value was 1.40.

Energy-efficient branch offices

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

Our main buildings are responsible for the bulk of energy consumption. Since three of our business premises in Vaduz (headquarters, Haus Wuhr Ost, Haus Engel[1]) are equipped with photovoltaic systems, we generate a small part of our electric power in an environmentally friendly manner. In 2016, the PV systems produced 10,170 kilowatt-hours (2015: 13,017 kWh).

Energetic renovation of buildings

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

Bank Linth is refurbishing various branch offices according to its “bank of the future” concept (see chapters “Retail & Corporate Banking”, page 20, and “Employees”, page 43). This also includes updating the air-conditioning system of the Bank Linth building in Rapperswil. Detailed assessments have shown that when the building was constructed in 1969, materials containing asbestos were used. Starting summer 2017, the building will be completely renovated, inside and out, and the hazardous waste will be disposed of properly. There is no risk to health.

Promotion of sustainable construction

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

Reduction in operational CO_2 emissions

Our commitment to climate protection is bearing fruit. We have made progress thanks to sustainable mobility and the energy efficiency of our IT infrastructure and buildings. The LLB Group's investment in the promotion of the use of public transport contributed, out of all LLB employees, to 246 coming to work in Vaduz by bus, bike or on foot in 2016 (2015: 248). Efficiency measures at our data processing centre, implemented since 2013, have enabled us to reduce our CO_2 emissions. group-wide CO_2 emissions fell by 10 percent from 904 tonnes in 2015 to 812 tonnes in 2016.

Climate foundations

We are convinced that actions driven by sustainability and responsibility increase the value of the LLB Group and have an impact that extends beyond our own company. We promote small and medium-sized enterprises (SMEs) that contribute to climate protection. LLB is a partner of the independent non-profit Swiss Climate Foundation (since 2008) and the LIFE Climate Foundation Liechtenstein (since 2009). The Swiss Climate Foundation has awarded CHF 477,300 to 24 SMEs in Liechtenstein since the start of the cooperation.

That is why LLB belongs to a group of 28 partner firms that pool their resources to promote SMEs in Switzerland and Liechtenstein. The companies do this in an uncomplicated and efficient manner and, through their activities, help to protect the climate. LLB refunds of CO_2 contributions from Liechtenstein made to the Climate Foundation are used to support new products and technological developments as well as energy-saving projects.

[1] Haus Engel was sold on 1 June.

Energy consumption and greenhouse gas emissions[1]

	2016	2015
Energy consumption (in MWh)	**6,069**	**6,471**
Electricity	4,870	4,934
District heating	240	348
Total heating fuels	875	1,152
Heating oil	233	388
Natural gas	642	764
Total motor fuels	84	37
Diesel (vehicles and emergency power generator testing)	42	21
Petrol (vehicles)	42	16
CO_2 emissions (in tCO_2e)[2]	**812**	**904**
Scope 1 total[3]	220	280
Heating fuels	194	260
Motor fuels	22	10
Volatile gases (refrigerants)	4	10
Scope 2 total[4]	593	624
Electricity[5]	539	546
District heating	53	77

1) Liechtenstein as location and Bank Linth. The recording of data on heat consumption is partly incomplete and is being optimised.
2) Greenhouse gas emissions calculated using Greenhouse Gas Protocol Guidelines
3) Greenhouse gas emissions from own heating boilers, motor fuels and air-conditioning systems
4) Greenhouse gas emissions produced from production of consumed electricity and district heating
5) Reported using location-based approach following Greenhouse Gas Protocol Scope 2 Guidance, approximates the market-based approach.

Sustainability report

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

To provide even more transparency for our stakeholder groups, we prepared our sustainability reporting for the 2016 report year again according to the guidelines of the "Global Reporting Initiative" (GRI). GRI, a non-governmental organisation, develops standards that provide companies with a systematic framework for communicating corporate responsibility in a transparent and comparable manner. GRI is the most widely used comprehensive sustainability reporting standard in the world. The GRI G4 Sustainability Guidelines provide for a focus on topics material to business activity.

We applied the GRI G4 Sustainability Reporting Guidelines – "Core Option" for the second time in the Annual Report 2016 of the LLB Group. The report was submitted to the GRI Materiality Disclosure Service and confirmation of its successful alignment with GRI guidelines was issued on 9 March 2017. By submitting its CSR reporting in accordance with GRI guidelines, the LLB is also prepared for the forthcoming requirements in connection with the amendment of the Person and Company Law in Liechtenstein. Within the context of the EU's CSR directive, certain larger companies will be required in future to provide a statement regarding the non-financial aspects of their business activity.

The Annual Report 2016 includes all companies with a 100 percent equity interest (see "Scope of consolidation", page 163) as well as Bank Linth LLB AG, unless explicitly noted otherwise.

The systematic identification of key sustainability topics for the LLB Group and its stakeholder groups can be found on page 63. The key topics are structured according to the topic groups: market performance, compliance, employees as well as responsibilities for society and the environment. As far as the data situation allows, this report covers all topics considered material.

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

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

Information regarding the management approach to sustainability ("Managementansätze zur Nachhaltigkeit") can be found at **ar2016.llb.li/gri-content-index**.

This page includes, inter alia, disclosures on Global Reporting Initiative (GRI) indicators G4-17, G4-20, G4-21 and G4-23.
A complete list of all GRI indicators shown in the report can be found in the GRI Content Index on page 63.

GRI Content Index

General standard disclosures

Reference	Location
Strategy and Analysis	
G4-1	p. 3
Organizational Profile	
G4-3	Liechtensteinische Landesbank AG
G4-4	p. 9, 39
G4-5	Vaduz, Liechtenstein
G4-6	p. 14
G4-7	p. 36
G4-8	p. 14
G4-9	Cover, p. 42
G4-10	p. 42, 44, 45, 47
G4-11	none
G4-12	p. 59
G4-13	none
G4-14	DMA. p. 2
G4-15	p. 50
G4-16	p. 26, 27, 50, 60
Identified Material Aspects and Boundaries	
G4-17	p. 62
G4-18	p. 55
G4-19	p. 55, 63
G4-20	p. 62
G4-21	S. 62
G4-22	S. 59
G4-23	p. 55, 62
Stakeholder Engagement	
G4-24	p. 54
G4-25	p. 54
G4-26	p. 54
G4-27	p. 54
Report Profile	
G4-28	Calendar year 2016
G4-29	March 2016
G4-30	annually
G4-31	kornelia.pfeiffer@llb.li
G4-32	p. 62
G4-33	none
Governance	
G4-34	p. 68 ff.
Ethics and Integrity	
G4-56	p. 9

Specific standard disclosures

Reference	Location	Reasons for omission
Economic Performance		
G4-DMA	DMA p.3	
G4-EC1	p. 56	
G4-EC3	p. 57	
G4-EC4	p. 56	
Market Presence		
G4-DMA	DMA p. 3	
G4-EC6	p. 42	
Indirect Economic Impacts		
G4-DMA	DMA p. 4	
G4-EC7	p. 39, 56	
G4-EC8	S. 56	
Procurement Practices		
G4-DMA	DMA p. 4	
G4-EC9	p. 59	
Energy		
G4-DMA	DMA p. 6	
G4-EN3	p. 61	
Emissions		
G4-DMA	DMA p. 6	
G4-EN15	p. 61	
G4-EN16	p. 61	
Transport		
G4-DMA	DMA p. 7	
G4-EN30	p. 61	
Employment		
G4-DMA	DMA p. 8	
G4-LA1	p. 47	
Labor / Management Relations		
G4-DMA	DMA p. 8	
G4-LA4	p. 42	DMA p. 19
Occupational Health and Safety		
G4-DMA	DMA p. 9	
G4-LA5	p. 46	DMA p. 19
G4-LA6	p. 43	
Training and Education		
G4-DMA	DMA p. 10	
G4-LA9	p. 45	DMA p. 19
G4-LA10	p. 45	
G4-LA11	p. 46	DMA p. 19
Diversity and Equal Opportunity		
G4-DMA	DMA p. 11	
G4-LA12	p. 44	

Reference	Location	Reasons for omission
Equal Remuneration for Women and Men		
G4-DMA	DMA p. 11	
G4-LA13	p. 46	DMA p. 19
Local Communities		
G4-DMA	DMA p. 12	
G4-SO1	p. 18, 58	
G4-FS13	p. 18	
Anti-Corruption		
G4-DMA	DMA p. 13	
G4-SO3	p. 52	
G4-SO4	p. 32, 52	
G4-SO5	No incidents	
Compliance		
G4-DMA	DMA p. 14	
G4-SO8	No penalties	
Product and Service Labeling		
G4-DMA	DMA p. 15	
G4-PR3	p. 23, 26	
G4-PR5	p. 20	
G4-FS16	p. 20	
Marketing Communications		
G4-DMA	DMA p. 15	
G4-PR6	No products	
G4-PR7	No infringements	
Customer Privacy		
G4-DMA	DMA p. 16	
G4-PR8	p. 31	
Product Compliance		
G4-DMA	DMA p. 17	
G4-PR9	No penalties	
Product Portfolio		
G4-DMA	DMA p. 17	
G4-FS7	p. 18, 57	
G4-FS8	p. 60	

Unless otherwise stated, the page numbers in the index are based on this report. In some cases, disclosures are in our online document on management approaches to sustainability (Disclosures on Management Approach – DMA), which is published in our online Annual Report at ar2016.llb.li/gri-content-index.
In this case, the relevant page numbers are marked with DMA.

Among other information, this page contains disclosures on the Global Reporting Initiative (GRI) indicator G4-19 (material aspects).

Clients only pay for what they need

Clients like to have a greater say about how, when and which combination of banking services they use and how much they pay for them. Our private clients shape their own individual banking relationship. With LLB Combi and Bank Linth Combi, we have combined traditional products in an innovative way.

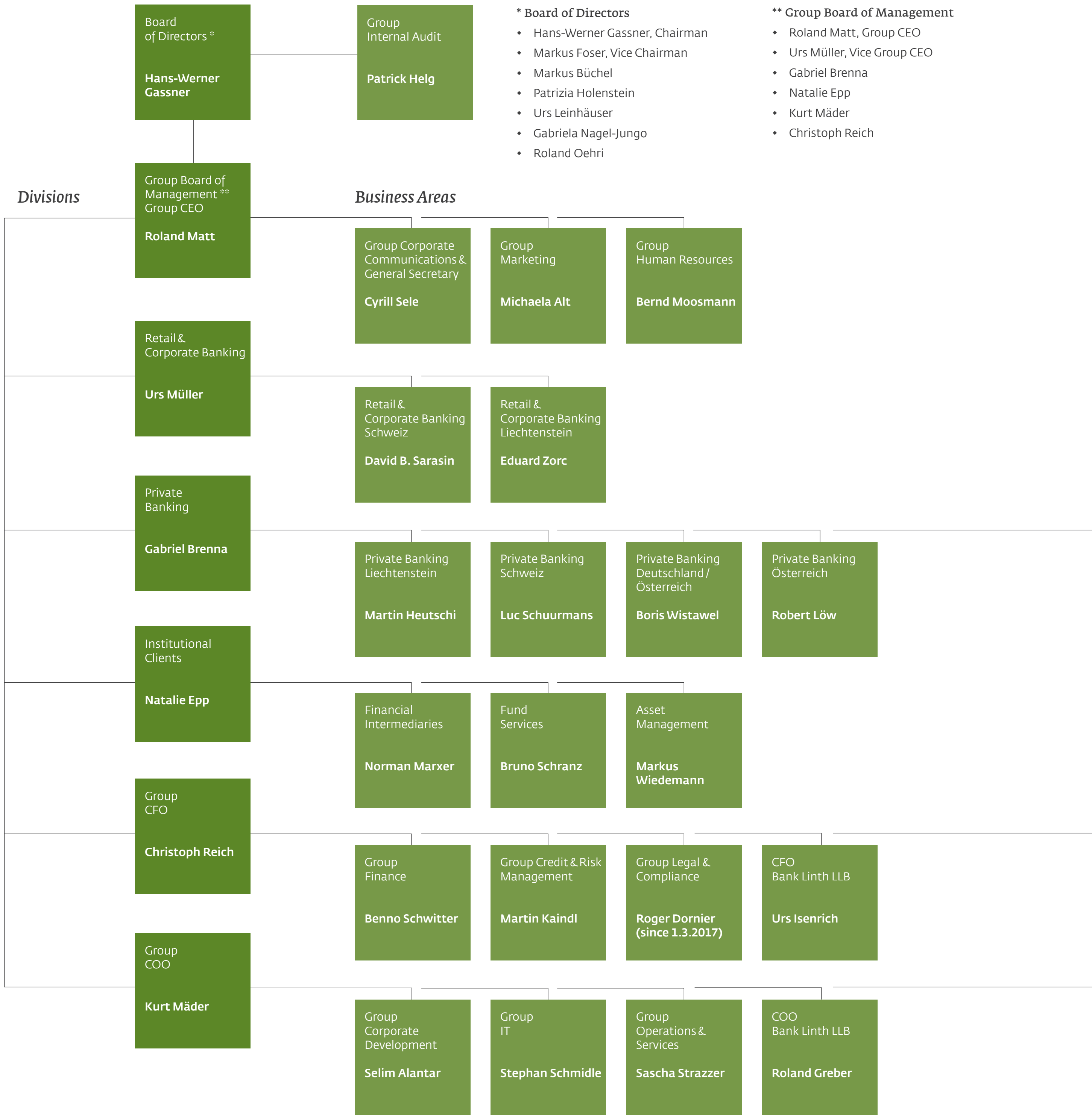
Using a mobile phone, laptop or PC, our clients put together the product packages they need using the online configurator. This is a unique model of à la carte banking.
llb.li/combi

What this means for the client, according to Michael Vogt, a member of the Individual Client Team in Vaduz, is: "Clients can find out what the service they need costs at the click of a button, and they only pay for what they need."
Meet Michael Vogt
at ar2016.llb.li/scroll


scroll

Organisational structure of the LLB Group

on 1 January 2017



* Board of Directors

- Hans-Werner Gassner, Chairman
- Markus Foser, Vice Chairman
- Markus Büchel
- Patrizia Holenstein
- Urs Leinhäuser
- Gabriela Nagel-Jungo
- Roland Oehri

** Group Board of Management

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

Group companies

on 1 January 2017

Liechtensteinische Landesbank (Österreich) AG (100 %)

Board of Directors

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

Board of Management

- Robert Löw, Chairman
- Gerd Scheider

LLB Asset Management AG (100 %)

Board of Directors

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

Board of Management

- Markus Wiedemann, Managing Director
- Christian Zogg

Bank Linth LLB AG (74.2 %)

Board of Directors

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

Board of Management

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

LLB Fund Services AG (100 %)

Board of Directors

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

Board of Management

- Bruno Schranz, Managing Director
- Michael Aebli
- Roland Bargetze

LLB Verwaltung (Schweiz) AG (100 %)

Board of Directors

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

Board of Management

- José Luis Calvo

Private Banking Middle East
Georg Hartmann

Private Banking Central Eastern Europe
Jean-Marie Deluermoz

Group Product Management
Hanspeter Wohlwend

CFO LLB AT
Gerd Scheider

COO LLB AT
Gerd Scheider

Corporate governance

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

Basis

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

The principles and directives defining corporate governance are laid down in two laws: "the law concerning the control and supervision of public companies" (ÖUSG) of 19 November 2009 and the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992. In addition, they are laid down in the statutes and rules of procedure of LLB. These documents are based on the directives and recommendations of the "Swiss Code of Best Practice for Corporate Governance" issued by the Swiss Business Federation (economiesuisse). The General Meeting of Shareholders on 8 May 2015 approved several general amendments to the Statutes, which contribute to a substantial strengthening of shareholder rights, in particular the expansion of the rights of shareholders to include items on the agenda and make proposals, and they introduced the option of postal voting and electronic voting as well as electronic delegation of proxies. Following the revision of the Statutes, and on account of the new StepUp2020 strategy, in November 2015, the Board of Directors undertook a revision of the rules of procedure, which came into force on 1 January 2016.

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

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

The Board of Directors of the LLB Group has held the "Best Board Practice" label of the Swiss Association for Quality and Management Systems (SQS) and the Liechtenstein Association for Quality Assurance Certificates (LQS) since December 2010. The business activities and organisation of the Board of Directors exhibit a high level of quality. In December 2016, both SQS and LQS reconfirmed the evaluation of the good quality and transparency of the bank's corporate governance. The Board of Directors was once again awarded the "Best Board Practice" label for a further three years.

The following corporate governance report complies with the requirements of the Directive Corporate Governance, valid since 1 December 2014, of the SIX Swiss Exchange, as well as its updated commentary of 20 September 2007. If information required by the directive is disclosed in the Notes to the financial statement, a corresponding reference is shown.

The ordinance against excessive compensation by listed companies (OaEC) has been in force in Switzerland since 1 January 2014. It applies to Swiss public companies whose shares are listed on an exchange in Switzerland or abroad. Liechtensteinische Landesbank AG is accordingly not affected by the ordinance. In the Regulatory Board Communiqué no. 2 / 2014 of 1 September 2014 concerning the revision of the directive on information relating to corporate governance (RDCG), the Regulatory Board notes that all companies listed on the SIX Swiss Exchange AG should in principle have to disclose the same information on corporate governance. This is to avoid the situation that issuers who are required to make certain disclosures under the current Directive Corporate Governance (DCG) will no longer have to make them in the future because they are not subject to the scope of the OaEC. As a result, the DCG now contains, in some areas, special provisions for issuers subject to the OaEC and provisions for those that are not subject to the OaEC.

1 Group structure and shareholders

1.1 Group structure

1.1.1 Description of the operative structure

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

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

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

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

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

The organisational structure of the LLB Group as at 1 January 2017 is shown on pages 66 to 67. The detailed segment reports are shown on pages 18 to 33 and 127 to 129.

1.1.2 Listed companies included in the scope of consolidation

The Liechtensteinische Landesbank, with its headquarters in Vaduz, is listed on the SIX Swiss Exchange. As at 31 December 2016, its market capitalisation stood at CHF 1'242.8 million (30'800'000 bearer shares at a nominal value of CHF 5.00 at a year-end price of CHF 40.35).

Bank Linth LLB AG, with its headquarters in Uznach, in which the Liechtensteinische Landesbank holds a majority equity stake of 74.2 percent, is also listed on the SIX Swiss Exchange. As at 31 December 2016, its market capitalisation stood at CHF 432.5 million (805'403 registered shares with a nominal value of CHF 20.00 at a year-end price of CHF 537.00).

1.1.3 Unlisted companies included in the scope of consolidation

Details of the unlisted companies included in the scope of consolidation (company, registered office, activities, share capital and equity interest) can be found in the Notes to the consolidated financial statement of the LLB Group in the table "Scope of consolidation" on page 163.

1.2 Major shareholders

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

At the end of 2016, the Principality's equity stake in the shares of Liechtensteinische Landesbank remained unchanged at 57.5 percent. Detailed information about the development of this equity stake can be found at **www.llb.li/capital+structure**. As at 31 December 2016, Thornburg Investment Management Inc. held a total of 908'120 LLB shares, which corresponded to an equity stake of 2.95 percent. Less than 0.1 percent of the shares were held by members of the Board of Directors and the Group Executive Board, while the LLB Group held 6.4 percent of its own shares.

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

Company	Reg. office	Listed on	Market capitalisation (in CHF thousands)	Stake (in %)	Segment	Security number	ISIN number
Liechtensteinische Landesbank AG	Vaduz	SIX Swiss Exchange	1'242'780		International Reporting Standard	3019524	LI0030195247
Bank Linth LLB AG	Uznach	SIX Swiss Exchange	432'501	74.2	Swiss Reporting Standard	130775	CH0001307757

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

2 Capital structure

2.1 Capital
As at 31 December 2016, the share capital of Liechtensteinische Landesbank stood at CHF 154.0 million (30'800'000 fully paid bearer shares with a nominal value of CHF 5.00).

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

2.3 Changes to capital
Details regarding changes to capital during the last three report years are shown in the table "Consolidated statement of changes in equity" on 115.

2.4 Shares and participation certificates
As at 31 December 2016, the share capital amounted to 30'800'000 fully paid bearer shares with a nominal value of CHF 5.00. With the exception of LLB shares held by Liechtensteinische Landesbank and its subsidiaries (1'959'238 shares), all the shares are eligible for dividend. As at 31 December 2016, share capital eligible for dividend therefore amounted to CHF 144.2 million. In principle, all LLB shares are eligible for voting according to the principle of "one share, one vote". However, on account of the regulations concerning the purchase of own shares (Art. 306a ff. PGR / Liechtenstein Person and Company Law), the shares held by Liechtensteinische Landesbank AG and its subsidiaries are not eligible for voting. There are no priority rights or similar entitlements. Shareholders have a subscription right with the issue of new shares, which entitles them to subscribe to new shares in proportion to the number of shares they already hold.

Liechtensteinische Landesbank AG has not issued participation certificates.

2.5 Profit-sharing certificates
Liechtensteinische Landesbank AG has no outstanding profit-sharing certificates.

2.6 Transfer limitations and nominee registrations
Liechtensteinische Landesbank exclusively issued bearer shares, these are fully transferable.

2.7 Convertible bonds and options
As at 31 December 2016, Liechtensteinische Landesbank had no bonds or convertible bonds or options on its own shares outstanding.

3 Board of Directors

3.1 Members

a) Name, nationality, education and professional career

Name	Year of birth	Profession	Nationality
Hans-Werner Gassner *	1958	Business consultant and certified public accountant	FL
Markus Foser **	1969	Business consultant	FL
Markus Büchel	1953	Human resources manager (retired)	FL
Patrizia Holenstein	1957	Lawyer	CH
Urs Leinhäuser	1959	Business economist	CH
Gabriela Nagel-Jungo	1969	Professor of financial management	CH
Roland Oehri	1968	Fiduciary	FL

* Chairman
** Vice Chairman

The General Meeting of Shareholders on 4 May 2016 re-elected the Patrizia Holenstein as Member of the Board of Directors for a further three-year term of office.

Board of Directors

From left to right:

Roland Oehri, Gabriela Nagel-Jungo, Markus Büchel, Hans-Werner Gassner, Urs Leinhäuser, Markus Foser, Patrizia Holenstein

Hans-Werner Gassner

Education:
- Licentiate in economics, University of St. Gallen, 1983
- Swiss federal diploma in accountancy, 1988
- Dr. oec., University of St. Gallen, 1989
- Swiss Banking School, 1996

Professional career:
- Accountant, Neutra Treuhand Group, 1984 – 1989
- Head of Internal Audit, Liechtensteinische Landesbank, 1990 – 1998
- Head of Finances, Liechtensteinische Landesbank, 1998 – 2000
- Proprietor, Adcom Treuunternehmen reg., Balzers, since April 2000
- Member of the Board and Member of Management of MAS Multi Asset Strategy Management Trust reg., Balzers, since 2005

Markus Foser

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

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

Markus Büchel

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

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

Patrizia Holenstein

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

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

Urs Leinhäuser

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

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

Gabriela Nagel-Jungo

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

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

Roland Oehri

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

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

b) Executive / non-executive members

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

c) Independence

All members of the Board of Directors are independent within the context of the SIX Swiss Exchange "Directive Corporate Governance" concerning corporate governance information. In 2016, as well as in the three previous years, no member of the Board of Directors was a member of the Group Executive Board or the Board of Management of the Liechtensteinische Landesbank or a Group company. No member of the Board of Directors had significant business relationships with the Liechtensteinische Landesbank or a Group company. In accordance with Art. 12 of the Liechtenstein law concerning the control and supervision of public companies, all contracts with the members of the Board of Directors must be in writing and they must be approved by the Board of Directors. The same conditions apply to contracts concluded with third parties

3.2 Other activities and commitments

Hans-Werner Gassner is the Managing Director of the Liechtenstein Association of Independent Asset Managers.

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

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

Patrizia Holenstein is a Member of the Board of Directors of Argos Holding AG, Sarnen, State Street Global Advisors, Zurich, and EPiC Property Investment AG, Zurich, as well as of Oase Holding AG, Baar.

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

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

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

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

3.3 The number of permitted activities

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

3.4 Election and term of office

3.4.1 Principles governing the election procedure

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

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

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

Hans-Werner Gassner has been Chairman of the Board of Directors since 2006. Markus Foser has been Vice Chairman since 2009. Cyrill Sele has been Secretary (recorder of the minutes) since April 2013.

3.4.2 First-time election and remaining term of office

Name	First-time appointment	Elected until
Hans-Werner Gassner	2006	2017
Markus Foser	2009	2018
Markus Büchel	2009	2018
Patrizia Holenstein	2013	2019
Urs Leinhäuser	2014	2017
Gabriela Nagel-Jungo	2014	2017
Roland Oehri	2009	2018

3.5 Internal organisation

3.5.1 Separation of tasks of the Board of Directors

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

* Chairman

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

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

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

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

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

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

Group Audit Committee

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

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

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

Name	Function
Roland Oehri	Chairman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

The Group Audit Committee has the following tasks:

- critically analysing the LLB Group's Consolidated Interim Report and the Annual Report as well as the financial statement of the parent bank. This encompasses the discussion of the following subject areas with the Group CFO, the Head Group Finance, the auditor in charge of the external auditors (not for the Consolidated Interim Report) and the Head of Group Internal Audit:

  - examining whether financial reporting has been prepared in compliance with applicable accounting standards as well as with legal and regulatory provisions;
  - evaluating the quality of applicable accounting principles and processes;
  - examining and assessing how the Group Executive Board as well as the internal auditors and Group Internal Audit estimate the risk of significant misrepresentation, which are the largest risk areas and how these are monitored and what measures are taken to counter them;
- reporting to the Directors about the work undertaken in connection with the above-mentioned points.
- Petitioning the Board of Directors about whether the LLB Group's Consolidated Annual Report and the financial statement of the parent bank can be presented to the General Meeting of Shareholders and published. And as regards the Consolidated Interim Financial Report only as to whether it can be published;
- monitoring and assessing the suitability and effectiveness of the internal control system in the area of financial reporting;
- critically assessing the documentation regarding forthcoming amendments of the accounting principles;
- evaluating the budgeting process as well as the budget proposal for the following year;
- taking note and discussion of the risk analysis made by the external auditors, the auditing strategy derived from it and the respective risk-oriented auditing plan (including the budget for the forthcoming audit year);
- critically analysing the audit reports submitted by the external audit and Group Internal Audit to the Board of Directors.
- Discussion of the major problems identified during the auditing process with the external auditors;
- monitoring the implementation of recommendations put forward by the external auditors and Group Internal Audit and eliminate weak points and deficiencies identified by them;
- assessing the qualifications, the quality, the independence, the objectivity and the performance of the external auditors (auditors according to banking law and person and company law) and of Group Internal Audit, as well as their cooperation;
- discussion of the annual activity report and the annual audit plan including risk analysis of Group Internal Audit as well as the approval of proposals to the Group Board of Directors;
- examining the compatibility of the external auditors' auditing activities with possible consulting mandates as well as assessing and discussing their professional fees;
- submitting a proposal to the Board of Directors for the attention of the General Meeting regarding the appointment or dismissal of the external auditors (appointed according to banking law and person and company law).
- Establishment of the procedure to be followed in selecting new external auditors.

Group Risk Committee

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

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

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

Name	Function
Roland Oehri	Chairman
Patrizia Holenstein	Member
Urs Leinhäuser	Member

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

- monitoring the integrity and suitability of risk management in the LLB Group, which is based on risk policy, in particular, in regard to market, credit, liquidity as well as operational risks;
- assessing the integrity and suitability of the internal control system in regard to the identification, measurement, limitation and monitoring of risks. In the areas of compliance and risk control, this includes, in particular, assessment of the precautions that are to ensure the observance of legal (e.g. capital adequacy, liquidity and risk distribution regulations) and bank-internal (e.g. risk policy framework) provisions;
- supporting the Board of Directors to formulate and implement the risk-relevant Group rulings and directives issued by it (overall risk policy, among others) as well as the relevant guidelines and processes that are set down in these rulings and directives;
- assessing, at least on an annual basis, the group-wide policy on risks (e.g. risk policy framework and credit risk management) as well as other topics defined by Group Credit & Risk Management (e.g. ICAAP report, credit watch list). In doing so, the concerned authorities are to be consulted and the suggestions and proposals of the Group Executive Board considered. A proposal shall then be made to the Group Board of Directors as the approving authority. Further risk-relevant Group rulings and directives that have to be approved by the Group Board of Directors will treated in the same manner;

- examining the risk propensity within the scope of the risk-bearing capacity statement. This is performed both from the perspective of the going concern and also of the gone concern. Based on the risk appetite, the Group Risk Committee can propose adjustments to the limits system to the Board of Directors;
- assessing the overall risk situation and supervising adherence to the limits set by the Board of Directors;
- discussing and assessing the Risk Report of the LLB Group and submission of a proposal to the Group Board of Directors as the approving authority;
- examining whether the pricing of investments and liabilities takes the business model and the risk strategy of the LLB Group into reasonable consideration and, if this is not the case, the submission of a plan of appropriate measures;
- examining whether the incentives offered in the compensation system take into consideration: risk, capital, liquidity, and the probability and timing of earnings.

Group Nomination & Compensation Committee

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

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

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

Name	Function
Hans-Werner Gassner	Chairman
Markus Büchel	Member
Markus Foser	Member

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategy Committee

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

Name	Function
Hans-Werner Gassner	Chairman
Markus Foser	Member
Gabriela Nagel-Jungo	Member

Representation in foundations

Hans-Werner Gassner is a Member of the Board of the "Future Foundation of Liechtensteinische Landesbank AG".

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

3.5.3 Working methods of the Board of Directors and its committees

Board of Directors

As a rule, the Board of Directors of Liechtensteinische Landesbank AG holds an ordinary meeting once a month. During the 2016 business year, the Board held a total of ten ordinary meetings. The meetings lasted between 1.75 and 12.75 hours; the closed meeting lasted two days. The closed meeting was conducted by the Board of Directors in cooperation with the Group Executive Board following the ordinary meeting in June 2016. The discussion points at this meeting were the StepUp2020 strategy and selected business area strategies.

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

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

Group Audit Committee

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

Date	Meeting	Attendance	Duration in h
26 February 2016	ordinary	all	12.75
22 March 2016	ordinary	all	4.25
26 April 2016	ordinary	all	8.50
24 May 2016	ordinary	all	1.75
21 / 22 June 2016	closed meeting	all	12.25
19 August 2016	ordinary	all	4.00
27 September 2016	ordinary	all	5.25
25 October 2016	ordinary	all	6.00
22 November 2016	ordinary	all	8.75
15 / 16 December 2016	ordinary	all	5.75

During the 2016 business year, the members of the Group Audit Committee met for four ordinary and two extraordinary meetings. No external experts were called in during the business year. No external experts are called in on a regular basis to deal with specific subjects.

Date	Attendance	Duration in h
14 January 2016	all	1.50
25 February 2016	all	4.25
22 March 2016	all	4.25
20 June 2016	all	2.00
18 August 2016	all	4.50
15 December 2016	all	4.25

Group Risk Committee

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

During the 2016 business year, the Group Risk Committee held four ordinary meetings. No external experts were called in during the business year.

Date	Attendance	Duration in h
25 February 2016	all	1.00
20 June 2016	all	4.00
18 August 2016	all	2.00
15 December 2016	all	2.75

Group Nomination & Compensation Committee

The Group Nomination & Compensation Committee convenes as often as business requires, but at least twice a year. The meetings are convened by the Chairman. He compiles an agenda prior to each meeting, which is sent together with the necessary information to the meeting's participants as early as possible. In 2016, six meetings were held at which all of the committee members were present.

To deal with specific issues, the Group Nomination & Compensation Committee can also invite other persons, such as the Head of Group Human Resources, representatives of the external auditors or external consultants. The Group CEO usually participates in the meetings of the Group Nomination & Compensation Committee in an advisory capacity; except when topics are discussed that particularly concern the Board of Directors itself, the business area of Group Internal Audit or the performance assessment of the Group CEO and the establishment of his compensation. In the 2016 business year, the Group CEO and the Head Group Human Resources partially attended all the meetings.

Date	Attendance	Duration in h
18 January 2016	all	0.50
4 February 2016	all	2.25
12 May 2016	all	0.75
30 August 2016	all	2.75
14 October 2016	all	1.00
29 November 2016	all	1.25

The Strategy Committee

The Strategy Committee did not hold an independent meeting in 2016. The status of the StepUp2020 strategy implementation and individual business area strategies were discussed with the full Board of Directors and the Group Executive Board at the closed meeting on 21 and 22 June 2016 (see chapter "Strategy and organisation", page 9).

Resolutions at the committee meetings

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

Self-evaluation

The Board of Directors evaluates its own performance annually and also that of the committees. This evaluation serves to determine whether the Board of Directors and the committees are functioning appropriately. The results of the self-evaluation are recorded in writing. Within the scope of re-assessing of the "Best Board Practice" label (30 August to 15 December 2016), accompanied by an assessor, the Board of Directors evaluated its own performance as part of a self-assessment process, and discussed the core issue of the current and future composition of the Board as well as that of the committees.

For this reason, the Group Audit Committee and the Group Risk Committee did not carry out a separate self-evaluation. The results of the self-evaluation demonstrated the high quality of work done by the Board of Directors and its committees. The self-evaluation performed by the Group Nomination & Compensation Committee at its meeting on 30 August 2016 revealed an unchanged, very positive picture compared with the previous year.

3.6 Definition of areas of responsibility

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

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

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

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

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

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

- the approval of the applicable accounting standards;
- the approval of medium-term planning and budgeting;
- the preparation of the Annual Report and the Consolidated Annual Report;
- the approval of the Consolidated Interim Report;
- ensuring regular reporting on the course of business and extraordinary occurrences; this includes annotated reporting, on a quarterly basis, as regards the development of business, the earnings situation, balance sheet development, liquidity and equity requirements;
- stipulating of the competence to authorise expenditure.

Concerning the ultimate responsibility as regards risk management, the Board of Directors is, in particular, responsible for:

- the definition in Group regulations of the strategies and principles of the LLB Group's risk policy and their monitoring;
- the issuing of regulations concerning the fundamentals of risk management, determination of risk appetite, risk control as well as accountability and the processes for the approval of risk-related transactions, whereby interest, credit, liquidity and market price risks and operational risks as well as legal and reputational risks, in particular, are to be identified, controlled, reduced and monitored, as well as their annual review;

- the stipulation of credit competences and the regulation of transactions for the account of corporate bodies and employees as well as resolutions regarding large commitments including cluster risks;
- the evaluation of the internal control system's effectiveness;
- the stipulation of overall and individual limits at least once a year;
- the approval of quarterly reports, including comments on the risk situation;
- ensuring prompt information in the event of imminent risk threats and losses of considerable importance.
- issuing a code of conduct for employees and corporate bodies of the LLB Group in relation to dealing with conflicts of interest and issuing instructions to prevent the misuse of confidential information.

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

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

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

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

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

In addition to the powers and duties set forth in the statutes, the Group Executive Board is responsible, in particular, for:

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

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

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

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

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

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

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

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

Internal supervision and control

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

In exercising its supervision and control functions, the Board of Directors is also assisted by Group Internal Audit, which is directly subordinate to the Chairman of the Board of Directors. Group Internal Audit is independent in its reporting and is not subject to any directive or other limitations, and within the LLB Group, it has an unrestricted right to peruse all information and documents. Group Internal Audit assumes the function of the internal auditor for all Group companies that are required to prepare a consolidated statement of accounts and submits the reasons for its decision to the Board of Directors or the respective Board of Directors of the Group company as to whether an effective internal control system exists and whether risks are being adequately monitored. Group Internal Audit provides independent, objective and systematic reporting services regarding:
- the effectiveness of processes for defining the strategy and principles of risk policy as well as general compliance with the approved strategy;
- the effectiveness of governance processes;
- the effectiveness of risk management, including the evaluation of whether risk identification and management are adequate;

- the effectiveness of internal controls, in particular, whether these are adequate in relation to the risks taken;
- if necessary, the effectiveness and sustainability of measures for reducing and minimising risks;
- the reliability and completeness of financial and operational information (that is, whether activities are correctly and fully documented) as well as the quality of the underlying data and models;
- compliance with legal and regulatory requirements as well as with internal rulings and directives and agreements.

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

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

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

Risk management

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

The LLB Group manages risks according to strategic objectives. It evaluates and manages risks through the application of detailed, qualitative and quantitative standards for risk responsibility, risk management and risk control. The "Internal Capital Adequacy Assessment Process" (ICAAP) ensures that adequate capital to cover all essential risks is always available.

The risk management specialists strive to create and maintain a group-wide uniform risk culture and risk approach. This establishes the fundamentals for an appropriate risk / return profile and an optimum allocation of capital. The Group Risk Committee invites the person responsible for risk management to a quarterly discussion of the risk status. Their reports are summarised every six months in an overall risk report of the LLB Group, which is discussed by the Board of Directors. Further details concerning risk management can be found in the chapter "Financial and risk management (pages 11 to 13) as well as in the Notes to the consolidated financial statement of the LLB Group on pages 164 to 185.

Compliance

All employees of the LLB Group are obliged to comply with all legal, regulatory and internal regulations as well as to observe common market standards and professional codes of conduct. The compliance functions within the LLB Group annually report in writing to the Board of Directors about their activities, findings and the measures taken (see chapter "Regulatory framework and developments", page 53).

Group Board of Management

From left to right:

Christoph Reich, Gabriel Brenna, Roland Matt, Natalie Epp, Urs Müller, Kurt Mäder

4 Group Executive Board

4.1 Members

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

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

Roland Matt

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

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

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

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

Urs Müller

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

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

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

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

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

Gabriel Brenna

Education:
- M.Sc., Electrical Engineering, École polytechnique fédérale de Lausanne (EPFL), 1993 – 1998
- Ph.D., Electrical Engineering, Semiconductors, Swiss Federal Institute of Technology (ETH) Zurich, 2000 – 2004

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

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

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

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

Natalie Epp

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

Professional career:
- Legal assistant at the Liechtenstein Bankers' Association, 2003 – 2005
- Private labelling client adviser at the Liechtenstein Fund Management Company IFOS, 2006 – 2007
- Member of senior management at the Liechtenstein Fund Management Company IFOS, 2008 – 2010

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

Board of Directors' mandates in Liechtensteinische Landesbank Group companies:
- LLB Fund Services AG (Chairwoman)
- LLB Asset Management AG (Chairwoman)

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

Kurt Mäder

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

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

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

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

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

Christoph Reich

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

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

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

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

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

4.2 Other activities and commitments

Apart from the mandates specified in No. 4.1, the members of the Group Executive Board are not involved in the management or supervisory boards of important Liechtenstein, Swiss or foreign private or public law corporations, establishments or foundations, nor do they exercise any permanent management or consultancy functions for important Liechtenstein, Swiss or foreign interest groups, nor do they perform official functions or hold political office.

4.3 Number of permitted activities

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

4.4 Management contracts

Liechtensteinische Landesbank has not concluded any management contracts.

5 Compensation, participations and loans

Details concerning compensation, participations and loans can be found in the compensation report (pages 93 to 101).

6 Shareholders' participation rights

6.1 Voting right limitation and representation

Liechtensteinische Landesbank has issued bearer shares. At the Liechtensteinische Landesbank's General Meeting of Shareholders, each share carries one vote. In accordance with Art. 306a ff. of person and company law, LLB shares held by Liechtensteinische Landesbank itself and its subsidiaries (1'959'238 shares as at 31 December 2016) are not eligible to vote.

Each shareholder has various possibilities of participating in the General Meeting of Shareholders. At the General Meeting of Shareholders, he can vote his own shares or authorise a third party in writing to vote them, or have them voted by Liechtensteinische Landesbank or his custodian bank. A person acting as a representative may act on behalf of more than one shareholder and vote differently for the various shares he represents. Shareholders may also vote their shares in writing by post or by means of electronic communication prior to the General Meeting. On account of the many different voting possibilities, Liechtensteinische Landesbank has decided not to designate an independent proxy. LLB is not subject to the pertaining provision of the ordinance against excessive

6.2 Statutory quorum

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

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

6.3 Convening of the General Meeting of Shareholders

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

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

6.4 Agenda

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

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

6.5 Registration in the company's share register

Liechtensteinische Landesbank has exclusively issued bearer shares.

7 Change of control and defensive measures

Liechtensteinische Landesbank is a banking institute licensed under Liechtenstein law with its registered office in the Principality of Liechtenstein. As a Liechtenstein bank listed on SIX Swiss Exchange, Liechtensteinische Landesbank AG must, in addition to complying with Liechtenstein law, also comply with various Swiss regulatory requirements. Since 1 January 2016, the provisions regarding the disclosure of significant shareholders are regulated in the Financial Market Infrastructure Law and in the Financial Market Infrastructure Ordinance and also apply to LLB.

Shareholders attaining, falling below or exceeding the threshold percentages of 3, 5, 10, 15, 20, 25, 33.33, 50 or 66.67 of voting rights must notify SIX and LLB.

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

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

8 Independent auditors

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

8.1.1 Date of acceptance of existing auditing mandate

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

PricewaterhouseCoopers AG, St. Gallen, has served as the independent auditors of Liechtensteinische Landesbank according to company and banking law since 1998. The auditing mandate was taken over from Revisuisse Price Waterhouse AG, St. Gallen, and its predecessor Revisa Treuhand AG, St. Gallen. Pursuant to the law of persons, company and banking law, the independent auditors were elected by the General Meeting of Shareholders on 4 May 2016 at the proposal of the Board of Directors for a period of one year.

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

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

8.2 Audit fees

In the 2016 business year, PricewaterhouseCoopers AG invoiced the companies of the LLB Group for CHF thousands CHF 1'272 (2015: CHF thousands 1'154) in respect of audit fees. These fees include the work carried out by the auditors as required by the respective regulatory authorities. The increase is attributable in particular to a first time review by the auditors of the interim financial reporting. In addition, in the 2016 business year, PricewaterhouseCoopers AG received CHF thousands 242 (2015: CHF thousands 256) for services in connection with our own investment funds.

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

8.3 Additional fees

For other services, PricewaterhouseCoopers AG invoiced the LLB Group companies for CHF thousands 449 (2015: CHF thousands 317) in 2016.

Audit fees and additional fees

in CHF thousands	2016	2015
Audit fees	1'272	1'154
Additional fees	449	317
Corporate finance	125	0
International accounting	45	0
Taxation advice	270	205
Legal and other advice	9	112

8.4 Information instruments of the external auditors

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

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

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

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

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

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

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

The Group Audit Committee reports to the full Board of Directors once a year concerning the activities of the external auditors and the assessment of their performance.

The external auditors have direct access to the Board of Directors at all times. They hold regular discussions with the Chairman of the Board of Directors and the Chairman of the Group Audit Committee.

9 Information policy

Liechtensteinische Landesbank simultaneously, comprehensively and regularly provides its shareholders, clients, employees and the general public with information. This ensures that all stakeholder groups are treated equally. Equality of opportunity and transparency are ensured through institutionalising and nurturing these ties as well as establishing and preserving relationships that are based on trust with the financial community, on the one hand, and with the media and all other interested recipients of information, on the other.

The most important information media of Liechtensteinische Landesbank are its web site (**www.llb.li**) as well as its annual and interim reports, media communiqués, its media and financial analysts, conference and the conference call for media and analysts, and its General Meeting of Shareholders.

As a listed company, Liechtensteinische Landesbank is obliged to publish share price-relevant information (ad hoc publicity, Art. 72 of the exchange listing regulations). To receive ad hoc announcements in accordance with the directives for ad hoc publicity automatically, an interested party can register at **www.llb.li/registration**. Ad hoc announcements are published under the link **www.llb.li/mediacommuniques**.

If you have any questions, please contact the following person who is responsible for investor relations:

Dr. Cyrill Sele
Head Group Corporate Communications & General Secretary
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Agenda

Date	Time	Event
14 March 2017	7.00 a.m.	Publishing of 2016 business result at www.llb.li; release of online Annual Report 2016 at ar2016.llb.li
	10.30 a.m.	Financial reporting and analyst conference
15 March 2017		2016 business result advertisement in the "Liechtensteiner Vaterland" and the "Liechtensteiner Volksblatt"
11 April 2017		Publication of printed Annual Report 2016
12 May 2017	6.00 p.m.	General Meeting of Shareholders
16 May 2017		Ex-dividend date
17 May 2017		Dividend record date
18 May 2017		Dividend payment date
24 August 2017	7.00 a.m.	Publishing of interim financial statement 2017; publication of printed interim financial statement 2017 and release of online interim financial statement 2017 at www.llb.li
	10.30 a.m.	Conference Call
25 August 2017		2017 interim financial result advertisement in the "Liechtensteiner Vaterland" and the "Liechtensteiner Volksblatt"

10 Important changes since the balance sheet date

- At the 25th General Meeting of Shareholders on 12 May 2017, Hans-Werner Gassner will step down from the Board of Directors due to the legal limitation on terms of office. It is proposed to the General Meeting that Georg Wohlwend be elected as his successor for three-year term of office. In addition, the Board of Directors proposes that the Board members Gabriela Nagel-Jungo and Urs Leinhäuser be re-elected for a further three-year term of office. Gabriela Nagel-Jungo and Urs Leinhäuser have been members of the Board of Directors since 2014.
- The Board of Directors proposes to the 25th General Meeting of Shareholders on 12 May 2017 that the bearer shares be converted into registered shares.

Compensation report

The Group regulation "Compensation standards" sets down the framework for the group-wide compensation policy. It defines the basis, values, objectives and responsibilities and sets out the minimum requirements for the design of the compensation systems. The compensation report contains information about the elements and methods of determining compensation, as well as the compensation paid to the Board of Directors and the Group Executive Board.

Introduction

On 1 January 2014, the "Ordinance against Excessive Compensation with respect to Listed Stock Corporations" (OaEC) came into force in Switzerland. Pursuant to the ordinance, Swiss public companies whose shares are listed on an exchange in Switzerland or abroad must publish details about the compensation of the members of its governing bodies in a compensation report. The details to be reported are set out in Art. 13 to 16 of the OaEC.

The OaEC does not apply to foreign companies that are publicly listed in Switzerland. According to the Regulatory Board Communiqué No. 2 / 2014 of 1 September 2014, No. II, all companies listed on the SIX Swiss Exchange should have to disclose the same information on corporate governance. Issuers that are not subject to the regulations of the OaEC have to therefore publish details about the compensation of the members of the Board of Directors and the Board of Management in the same manner as Art. 14 to 16 of the OaEC. By publishing this compensation report, Liechtensteinische Landesbank AG is fulfilling this obligation.

The following report deals with the compensation policy, the elements of the compensation, the responsibilities and methods of determining compensation. The compensation paid during the 2016 business year is also presented.

Compensation policy

On 18 August 2011, the Board of Directors issued the Group regulation "Compensation standards" for Liechtensteinische Landesbank AG and its Group companies (revised on 1 January 2016). The Group regulation is based on: the current version of the Ordinance on Banks and Securities Firms (Banking Ordinance) of 22 February 1994, in particular Appendix 4.4; EU Directive 2013 / 36 / EU (CRD IV) of 26 June 2013; Ordinance No. 575 / 2013 (CRR) of 26 June 2013; Delegated Ordinance No. 527 / 2014 of 12 March 2014; and Delegated Ordinance No. 604 / 2014 of 4 March 2014. These legal provisions are applied to the LLB Group in a way and to a degree that is commensurate with its size and internal organisation as well as the type, scope and complexity of its business.

The Group regulation "Compensation standards" regulates the framework for the group-wide compensation policy, in particular in regard to its alignment to risk management. It stipulates the basis, values and objectives and sets out the minimum requirements for the design of the compensation systems. In addition, it regulates Group-internal and Group-external reporting as well as related responsibilities.

The Group regulation applies to the Group Board of Directors, the Group Executive Board, members of the Board of Directors, members of the Board of Management of the Group companies, senior managers exercising control functions, risk takers as well as to employees who receive total compensation comparable to that of at least the lowest total compensation that a member of the Board of Management has received, and whose decisions have a significant influence on the risk profile.

To implement the Group regulation "Compensation standards" at Liechtensteinische Landesbank AG, the Board of Directors has also issued the separate regulation "Compensation standards" (revised on 1 January 2016). As a company exempt from Art. 12, Para. 2 of the OaEC, Liechtensteinische Landesbank has not stipulated any regulations concerning compensation, participation and loans.

The Group companies issue company-specific compensation guidelines, which take into consideration the applicable (special) legal regulations. Deviations from the Group regulation are only permitted if they stem from prevailing law or special legal regulations.

The compensation for performance complies with the business strategy as well as with the goals and values of the LLB Group and is based on the following principles:

- Sustainability and risk adjustment:
  Compensation practices must contribute to long-term corporate development. They must support risk management and the pursuit of both continuous increases in the company's value and long-term client and employee retention. Compensation policy has to offer incentives in a manner that allows for adequate risk behaviour by individual persons in order to counteract any conflicts of interest.

- Foundation of trust:
  The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the other. Furthermore, a performance appraisal always has subjective elements. Accordingly, the voluntary nature of the payment of the variable component must be ensured and attention must be drawn to the scope of discretion in this respect.

- Performance and success orientation:
  Compensation practices also have to reward both individual performance and company-related performance. The focus on the Group's success promotes, and is in line with, the LLB Group's long-term business interests. Acknowledging individual performance serves performance motivation, the management of individual performance contributions towards achieving company goals as well as the retention of top performers.

- Simplicity, clarity and comprehensibility:
  The compensation regulations and models are to be kept simple, clear and comprehensible. Employees as well as third parties should be able to easily understand the basic concepts.

- Fair compensation in accordance with responsibilities and management level:
  The determination of compensation also has to consider the workload as well as the degree of responsibility and reflect the different management level requirements in a clear and fair manner.

- Group orientation:
  Compensation also has to promote Group orientation. It aims to further commitment towards Group success and increased identification with the Group through employee participation in the long-term development of value and in shared ownership by means of an appropriate share option scheme.

The compensation policy forms the basis for the compensation standards stipulated in appropriate regulations and for the compensation model. The compensation standards set out the targets, processes and requirements for the design of the compensation. They also contain rules for the coordination between compensation and risk management. For employees who receive a variable component of compensation, the compensation model specifies the ratio between fixed and variable portions and the allocation mechanism for the variable portion.

Elements of compensation

The compensation model of the LLB Group

The LLB Group's compensation model aims at ensuring that compensation is performance-linked. Among other elements, this means that an above-average performance has a positive and a below-average performance a negative effect on the amount of compensation. In accordance with the compensation policy, the compensation model focuses on sustained, long-term-oriented action.

The LLB Group's compensation model was developed in conjunction with FehrAdvice & Partners AG. It is based on the results of behavioural economics research carried out by Prof. Ernst Fehr from the University of Zurich. A key performance indicator is the so-called "Market-Adjusted Performance Indicator" (MAPI). The MAPI captures the company as holistically as possible, which means it reveals not only short-term successes but also long-term effects. The MAPI gives an undistorted, holistic view of management performance. This is done by comparing the long-term stock return of a company (total shareholder return, TSR) with the TSR of a tailored, relevant comparable group. The exact alignment of the comparable group according to the course of the TSR allows external market shocks to be calculated out. The difference between the TSR of the company and that of the comparable group gives an indication of the actual performance of the company's management.

The compensation system of the LLB Group

The compensation system is essentially based on the following approaches:

1. Clear performance incentives, performance orientation and transparency:
   A target compensation (total compensation or total target compensation) is defined for each employee. It determines how much employees who attain their targets can earn. A bonus-malus logic ensures that employees earn more or less than their defined target compensation depending on whether they exceed or do not attain their targets. Compensation depends on performance and not on corporate results that can be affected by market conditions. Acknowledging individual performance serves performance

motivation, the management of individual performance contributions towards achieving company goals as well as the retention of top performers.

2. Uniform focus on the structure of the LLB Group:
   The compensation system across the whole Group follows a uniform logic and is in accordance with the management structure.

3. Fair compensation in accordance with responsibilities and management level:
   The determination of compensation considers the workload as well as the degree of responsibility and reflects the different requirements in a clear and fair manner.

4. Target orientation:
   The variable component of the target compensation depends on the salary model and the attainment of targets, which are determined during the annual objectives-setting process and reflect the orientation of and change in the bank. The focus on relative management performance (MAPI) promotes, and is in line with, the LLB Group's long-term business interests. The fulfilment of basic tasks is shown through the function level and thus in the assignment of the reference compensation curve.

5. Fairness and freedom to act:
   The variable component is a significant part of the target compensation. Internal transfers and departures are possible at any time and calculated fairly on a pro rata basis.

6. Integrity and trust:
   The design of the compensation regulations and processes is based on a mutual foundation of trust between employees and employers. This is necessary because there are time differences between the provision of the performance and the acceptance of responsibility on the one hand, and the payment of the compensation on the other. Furthermore, a performance appraisal always has subjective elements. As a reliable employer, we also stand by our employees in difficult times.

These approaches should ensure an understanding of the functioning of the compensation system and fairness for the employees.

Target compensation

In general, target compensation (total target compensation) is comprised of a fixed and a variable component. The fixed component encompasses all contractually agreed or statutory compensation, which is already stipulated prior to the provision of any performance. The variable component includes, in particular, those elements of compensation which vary depending on various criteria, such as the business success of the company, the individual performance of the employee or the results attained by the organisational unit. In general, the amount and payment of the variable component is at the free discretion of the employer.

Fixed component of target compensation

The fixed component must be reasonably proportionate to the variable component. It is to be calculated in such a manner that indeed the payment of the variable component could be dispensed with. This proportionate relationship is specified in the individual compensation guidelines of Liechtensteinische Landesbank AG and of the LLB Group companies. Depending on the salary model, it varies from 97.6 percent of the target compensation to 66 percent of the target compensation for the Board of Management.

Variable component of target compensation

The variable component of the target compensation is paid in cash and / or in the form of an entitlement to acquire LLB shares, which is subject to a blocked period of three years. Other financial instruments, such as options or bonds, are not considered. The variable component may not exceed 100 percent of the fixed component of the total compensation for each person.

A clawback ruling applies to the blocked portion of the variable compensation, which is largely governed by the individually attained performance and the risks. If a significant change occurs in the assessment of performance and risks during the blocking period (for example, inadequate due diligence, untrustworthy business management or incurring excessive risks), the acquired share entitlements are to be reduced accordingly. The body which decides on the amount of the variable compensation during the annual compensation process will decide about the reduction of the share entitlements. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative.

A guaranteed variable compensation, for example in the form of a minimum bonus, may only be promised in exceptional circumstances and must be limited to the first working year. As a basic principle, no severance compensation and no additional voluntary annuity payments will be made to employees who leave the company.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The employees of the LLB Group receive fringe benefits in the form of preferential conditions on bank products as customary in the industry as well as a limited preferential interest rate for mortgage loans and on credit balances.

Group Internal Audit is responsible for reviewing the implementation of the Group regulation "Compensation standards" once a year. The results of this review are reported in writing to the Board of Directors. The compensation of senior executives in risk management and compliance at the parent bank and at the LLB Group companies is reviewed once a year by the relevant Board of Directors or by the Compensation Committee (if such a body exists in the Group company). The Group Nomination & Compensation Committee carries out these tasks for the Group functions.

Compensation of the Board of Directors and the Group Executive Board

Board of Directors

The Board of Directors stipulates the amount of compensation of its members in accordance with their duties and responsibilities. The members of the Board of Directors receive a fixed compensation, which includes the participation in (ordinary and extraordinary) meetings and the General Meeting of Shareholders. The fixed compensation is paid out in cash and in the form of entitlements for the acquisition of LLB shares. The number of LLB shares is calculated on the basis of the average share price in the last quarter of the financial year. The entitlement to acquire LLB shares is subject to a blocked period of three years.

The members of the Board of Directors do not receive any variable compensation. They also do not profit from the additional benefits for staff (fringe benefits) or from their preferential conditions on bank products. Business relations with them are subject to the same conditions that apply to comparable transactions with third parties. On account of legal provisions, no severance payment may be made in the event of the termination of a mandate (Art. 21, Para. 2 of the law concerning the control and supervision of public companies).

Group Executive Board

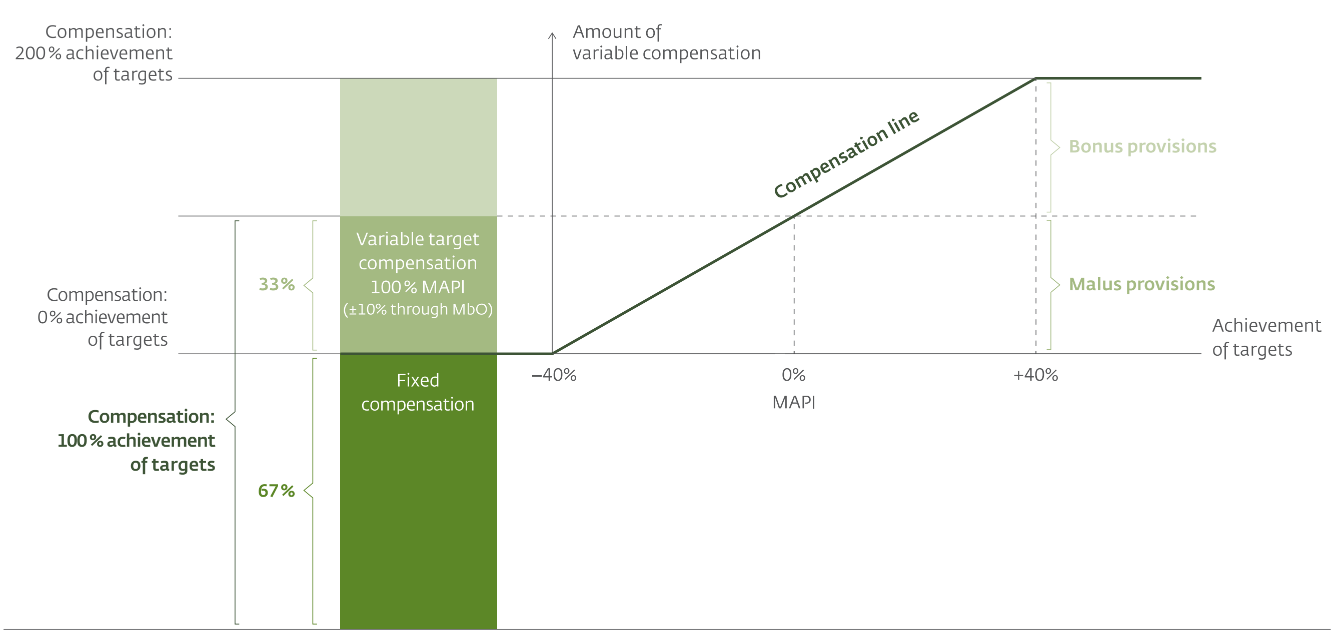
A target compensation is defined for each member of the Group Executive Board. It consists of a fixed compensation (67 %) and a variable target compensation (33 %). The target compensation corresponds to the compensation attributable to the member of the Group Executive Board if the targets are 100 percent attained.

The compensation model also contains a bonus-malus provision. The members of the Group Executive Board receive more or less than their target compensation depending on whether they exceed, partly attain or do not attain the annual targets. The maximum bonus possible is 200 percent of the variable target compensation and the maximum malus possible is 0 percent of the variable target compensation. This means that the variable compensation is limited to the total amount of the fixed compensation.

The fixed compensation for the members of the Group Executive Board was determined on the basis of a compensation comparison carried out by the Towers Watson company in 2016. This comparison comprises between 5 and 13 comparable banks and between 7 and 23 comparable positions per function represented in the Group Executive Board.

The amount of the variable compensation is determined by the Group performance. This is measured using relative total shareholder return (TSR), i.e. the so-called "Market-Adjusted Performance Indicator" (MAPI). This is done by comparing the TSR of the LLB share in relation to the TSR of a peer group. The peer group is broadly diversified and comprises a group of 28 banks. Its composition is discussed and evaluated annually by the Group Nomination & Compensation Committee. The Board of Directors can adjust the variable compensation, based on the individual performance within the framework of the

Compensation model: Group Executive Board



Management by Objectives (MbO) process, by plus / minus 10 percent of the variable target compensation.

The compensation model is illustrated in the previous chart.

Geographic distribution of the 28 banks in the peer group:

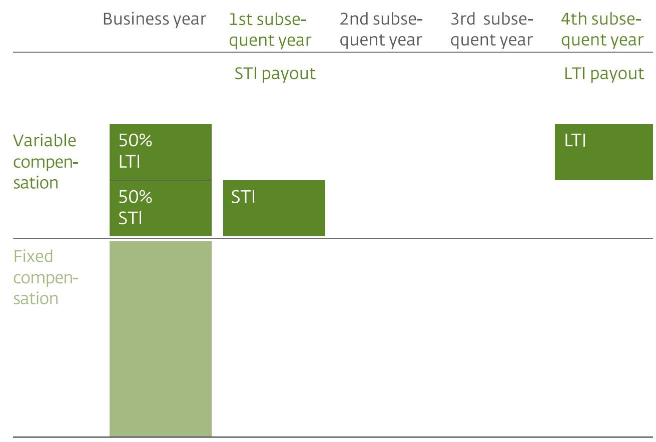
Liechtenstein	1
Switzerland	12
Austria	2
Germany	1
France	4
Italy	4
United Kingdom	1
UAE	3

The MAPI compares the management's performance with that of a comparable group of banks. Market effects can be eliminated from the performance indicator by comparing performance with a peer group. The MAPI is therefore free of external market effects. It is calculated annually by FehrAdvice & Partners AG, Zurich.

If the MAPI is zero percent, which means that the TSR of the LLB share corresponds to the TSR of the peer group, the members of the Group Executive Board receive their variable target compensation. The variable compensation is linearly dependent on the MAPI. No variable compensation is paid if the MAPI is minus 40 percent or less. If the MAPI is 40 percent or more, the maximum variable compensation is paid, which is capped at 200 percent of the variable target compensation.

The fixed compensation is paid out in cash every month, the variable component is provided in the first quarter of the following year. The variable compensation comprises a short-term incentive (STI) and a long-term incentive (LTI). The STI is paid in cash and the LTI is paid in the form of an entitlement to acquire LLB shares. The distribution between the STI (50 %) and the LTI (50 %) is fixed. The number of LLB shares for the LTI is calculated on the basis of the average share price in the last quarter of the financial year. The LTI is subject to a blocked period of three years. The three-year period remains in force even after termination of employment. After three years, the entitlement to acquire shares is transformed into a right to the transfer of the corresponding LLB shares. The share entitlement can be withdrawn or reduced if – during the three-year period – there are significant changes in the assessment of performance and / or risk behaviour of the member of the Group Executive Board. Moreover, the share entitlement in the year concerned will be forfeited if the average Group net profit in the last three years is negative. At the end of the three-year period, the Group Nomination & Compensation Committee examines whether the prerequisites for the entitlement have been met. The Committee submits its decision to the Board of Directors for a final decision.

LTI with clawback mechanism



The employment relationship of the members of the Group Executive Board is stipulated in individual employment contracts. The period of notice is four months. The contracts of employment do not contain any special clauses, such as, for example, severance compensation following the termination of employment or even in the event of a change in control.

The fixed compensation component and the variable target compensation are insured in the staff pension scheme for old age, death and invalidity. The members of the Board of Management are subject to the same conditions in relation to fringe benefits as apply to other employees of the LLB Group. The preferential conditions on bank products as customary in the industry largely consist of a limited preferential interest rate for mortgage loans and on credit balances.

Responsibilities and methods of determining compensation

The Group Nomination & Compensation Committee (see point 3.5.2 "Composition of all Board of Directors' committees, their tasks and terms of reference", pages 75 – 79) advises the Board of Directors in all aspects concerning compensation. Its tasks include:

- the formulation of recommendations for the stipulation of principles and the establishment of regulations for the compensation policy concerning the members of the Board of Directors, the members of the Group Executive Board and the other employees of the bank for submission to the Board of Directors;
- the formulation of proposals for the compensation of members of the Board of Directors and of the Group Executive Board as well as the Head of Group Internal Audit for submission to the Board of Directors in accordance with existing principles and regulations;

- the annual review of the Group regulation “Compensation standards”, the LLB AG regulation of the same name as well as the Group regulation “Fit & Proper – Assessment of members of the Board of Directors, members of the Board of Management, the Head of Group Internal Audit and of key function holders” for submission to the Board of Directors;
- the annual review of the compensation of the members of the Board of Directors, members of the Group Executive Board, the Head of Group Internal Audit and senior executives in risk management and compliance pursuant to the Group regulation “Compensation standards” and the LLB AG regulation of the same name for submission to the Board of Directors in accordance with existing principles and regulations;
- the annual perusal of the compensation of all staff who are covered by the Group regulation “Compensation standards” and the LLB AG regulation of the same name.

The Board of Directors as a whole approves the principles and regulations governing compensation and specifies the amount of the compensation for the members of the Board of Directors and the members of the Group Executive Board, which reflects their professional experience and the organisational responsibility they bear in the company. The decision regarding the amount of the compensation of the members of the Board of Directors and the members of the Group Executive Board is made at the discretion of the Board of Directors and is based on their duties and responsibilities. The amount of variable compensation of the Board of Management is dependent on the individual fixed compensation from the compensation model. The Chairman of the Group Executive Board has a right of proposal concerning the compensation of the other members of the Board of Management. The members of the Group Executive Board are not present at the discussion and the decision concerning the amount of their compensation.

Pursuant to Art. 12, Para. 2 of the Law on the Liechtensteinische Landesbank, the Board of Directors must inform the Government about the compensation ruling specified for it. Liechtensteinische Landesbank does not submit the total compensation of the Board of Directors and the Group Executive Board to the General Meeting of Shareholders for approval. It also does not hold an advisory vote on the question of compensation.

Compensation in 2016

For the 2016 business year, the members of the Board of Directors received a fixed compensation of CHF thousands 934. Contributions to benefit plans and other social contributions amounted to CHF thousands 107. The fixed compensation was paid in cash (CHF thousands 764) as well as in the form of an entitlement to acquire LLB shares (CHF thousands 170). The entitlement to acquire LLB shares is subject to a blocked period of three years.

In comparison with the previous year, the total compensation of the members of the Board of Directors decreased by CHF thousands 3 or 0.3 percent. The reduction in the compensation of the members of the Board of Directors was due to lower contributions to benefit plans and other social contributions.

For the 2016 business year, the members of the Group Executive Board received a fixed compensation of CHF thousands 3,120 and a variable compensation of CHF thousands 2,262. Contributions to benefit plans and other social contributions amounted to CHF thousands 1,020. The fixed compensation was paid in cash. The variable compensation was paid in cash (50 %) as well as in the form of an entitlement to acquire LLB shares (50 %), which is subject to a blocked period of three years. The number of shares for the share-based compensation is calculated from the average share price of the last quarter of 2016 (CHF 40.26). The variable compensation for the members of the Group Executive Board was, on average, approximately 72.5 percent of the fixed compensation or 35.3 percent of total compensation.

The total compensation of the members of the Group Executive Board in 2016 increased by CHF thousands 1,284 or 25.1 percent. This increase was the result of the higher variable compensation. The MAPI was plus 22.5 percent, which corresponds to an attainment of targets of 156.2 percent.

The total compensation of the members of the Board of Directors and the members of the Group Executive Board for the 2016 business year is reported on an accrual basis. The variable compensation was charged to the 2016 income statement. Payment of the STI to the members of the Group Executive Board will be made in the first quarter of 2017. The entitlement to acquire LLB shares by the Group Executive Board (LTI) and the Board of Directors is subject to a blocked period of three years.

Details of the compensation and the participations of the members of the Board of Directors and the Group Executive Board, as well as loans to them are shown in the following table.

Compensation of key management personnel

in CHF thousands	Fixed compensation * 2016	Fixed compensation * 2015	Variable compensation 2016	Variable compensation 2015	Contribution to benefit plans and other social contributions 2016	Contribution to benefit plans and other social contributions 2015	Share-based payments 2016	Share-based payments 2015	Entitlements 2016	Entitlements 2015	Total 2016	Total 2015
Members of the Board of Directors												
Hans-Werner Gassner, Chairman **	300	300	0	0	73	74	0	0	40	40	413	414
Markus Foser, Vice Chairman	119	119	0	0	9	9	0	0	30	30	158	158
Markus Büchel, Member	64	64	0	0	5	5	0	0	20	20	89	89
Patrizia Holenstein, Member	74	74	0	0	6	6	0	0	20	20	100	100
Urs Leinhäuser, Member	74	74	0	0	4	6	0	0	20	20	98	100
Gabriela Nagel-Jungo, Member	63	63	0	0	5	5	0	0	20	20	88	88
Roland Oehri, Member	70	70	0	0	5	5	0	0	20	20	95	95
Total	**764**	**764**	**0**	**0**	**107**	**110**	**0**	**0**	**170**	**170**	**1'041**	**1'044**
Members of the Board of Management * **												
Roland Matt, Group CEO	637	637	182	87	189	183			182	87	1'190	994
Other members of the Board of Management ****	2'483	2'497	949	394	831	839			949	394	5'212	4'124
Total	**3'120**	**3'134**	**1'131**	**481**	**1'020**	**1'022**	**0**	**0**	**1'131**	**481**	**6'402**	**5'118**

* Fixed compensation fee, meeting allowances.
** The Chairman receives a fixed compensation for his 70 percent workload. He does not receive meeting allowances.
*** The Board of Management comprises six members.
**** Heinz Knecht went into retirement on 30 June 2016. From this date, Urs Müller previously Head of the Institutional Clients Division, took over from Heinz Knecht as Head of the Retail & Corporate Banking Division. Natalie Epp has been Head of the Institutional Clients Division since 1 July 2016.

Share holdings of related parties

	Bearer shares	
	31.12.2016	31.12.2015
Members of the Board of Directors		
Hans-Werner Gassner, Chairman	2'729	2'729
Markus Foser, Vice Chairman	160	160
Markus Büchel, Member	0	0
Patrizia Holenstein, Member	0	0
Urs Leinhäuser, Member	250	250
Gabriela Nagel-Jungo, Member	235	235
Roland Oehri, Member	400	400
Total	**3'774**	**3'774**
Members of the Board of Management		
Roland Matt, Group CEO	10'707	8'013
Urs Müller, Vice Group CEO	11'370	9'151
Gabriel Brenna	4'079	3'157
Heinz Knecht (until 30 June 2016)	0	2'347
Natalie Epp (since 1 July 2016)	50	0
Kurt Mäder	5'041	2'894
Christoph Reich	3'228	1'499
Total	**34'475**	**27'061**
Other related companies and parties		
Related parties	100	100
Total	**100**	**100**

No member of the Board of Directors or the Board of Management owns more than 0.1 percent of the voting rights.

Loans to key management personnel

in CHF thousands	Fixed mortgages 31.12.2016	Fixed mortgages 31.12.2015	Variable mortgages 31.12.2016	Variable mortgages 31.12.2015	Total 31.12.2016	Total 31.12.2015
Members of the Board of Directors						
Hans-Werner Gassner, Chairman	0	0	0	0	0	0
Markus Foser, Vice Chairman	1'000	300	0	0	1'000	300
Markus Büchel, Member	1'291	1'294	0	0	1'291	1'294
Patrizia Holenstein, Member	0	0	0	0	0	0
Urs Leinhäuser, Member	0	0	0	0	0	0
Gabriela Nagel-Jungo, Member	400	400	0	0	400	400
Roland Oehri, Member	0	0	0	0	0	0
Related parties	1'425	1'580	0	0	1'425	1'580
Total	**4'116**	**3'574**	**0**	**0**	**4'116**	**3'574**
Members of the Board of Management						
Roland Matt, Group CEO	1'005	1'255	0	0	1'005	1'255
Other members of the Board of Management *	2'810	2'810	0	0	2'810	2'810
Related parties **	0	0	0	0	0	0
Total	**3'815**	**4'065**	**0**	**0**	**3'815**	**4'065**

* In addition there is a surety limit of CHF thousands 84 for a member of the Management Board.
** There is a surety limit of CHF thousands 84.

At 31 December 2016, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 13 and 107 months (previous year: between 11 and 119 months) at standard market client interest rates of 0.95 to 1.65 percent p.a. (previous year: 1.10 to 1.60 %). At 31 December 2016, the maturities of the fixed mortgages for the members of the Board of Management ranged between 22 and 102 months (previous year: between 1 and 114 months) at interest rates of 0.4 to 1.88 percent p.a. (previous year: 1.05 to 2.88 %).

Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1,000 (previous year: CHF thousands 750) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate.

The fair value of cover of new loans granted amounted to CHF thousands 1,577 (previous year: CHF thousands 1,577).

No allowances for loans to management were necessary. LLB issued guarantees to third parties on behalf of management or related parties totalling CHF thousands 168 (previous year: CHF thousands 0).

Compensation, loans and credits to related parties pursuant to Art. 16, OaEC

Liechtensteinische Landesbank AG paid no compensation to persons pursuant to Art. 16, OaEC. Loans and credits to related parties pursuant to Art. 16, OaEC were granted at standard market conditions.

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Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinische Landesbank Aktiengesellschaft Vaduz

Report on the audit of the consolidated financial statements

Opinion
As Group auditor, we have audited the consolidated financial statements (income statement, the statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes to the financial statements: pages 112 to 188) and the Group annual report (pages 110 to 111) of Liechtensteinische Landesbank Group (LLB Group) for the year ending as at 31 December 2016.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position in accordance with the International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

Basis for opinion
We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the consolidated financial statements and the Group annual report are free from material misstatement. We audited the items and disclosures in the consolidated financial statements by means of analyses and surveys on a sample basis.

Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the consolidated financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach
Overview

Overall Group materiality: CHF 5.7 million

We concluded full scope audit work at four reporting units in two countries.

Our audit scope addressed 97 % of profit before tax and 99 % of the balance sheet total.

As key audit matters, the following areas of focus have been identified:

- Valuation of customer loans
- Impairment testing of goodwill
- Completeness and adequacy of the provisions for legal and litigation risks

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made. For example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 5.7 million
How we determined it	5 % of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of LLB Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Board of Directors that we would report to them misstatements above CHF 0.3 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter

LLB Group grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

Loans amount to CHF 11.5 billion (previous year: CHF 11.0 billion) and thus represent the largest asset item of LLB Group. Mortgage-based loans form the majority of the loan portfolio (86.5 % of total loans). In addition, LLB Group grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual value adjustments. To this end, judgement has to be applied to calculate the amount of the individual value adjustment. We focused on the two following audit matters:

- The method used by LLB Group to identify any loans that may need adjusting, including loans that show indications of impairment according to the definition of LLB Group.
- The appropriate and consistent application of the policies and instructions issued by Group management relating to the calculation of the amount of the individual value adjustment.

The accounting and valuation principles applied to loans, the method used to identify the default risk and to determine the need for impairment as well as the evaluation of the coverage are taken from the management report.

Please refer to page 121 (accounting principles), page 134 (comments on the consolidated balance sheet) and page 174 (risk management in relation to credit risks).

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of customer loans:

- Credit processing and authorisation: Sample testing of the requirements and processes set out in the Group's internal policies and working instructions in relation to credit processing. We also tested that authorisation is performed at the proper level in accordance with the system of authorities.
- Credit monitoring (periodic re-approval): Sample testing of identified bad debts and identifying the potential need for impairment.

Where significant judgement is required, we also put forward our own critical opinion as part of the substantive tests of detail on the authority to grant loans. Our tests of detail covered the following:

- Sample-based testing of new business and risk positions (including positions with individual value adjustments or indications of impairment) to evaluate whether additional value adjustments are needed.
- Sample-based testing of the method used to calculate value adjustments in terms of its appropriateness and compliance with the policies and working methods issued by the Group.

The combination of the audit of key controls and the tests of detail gives us sufficient assurance to assess the valuation of customer loans as adequate.

The assumptions used by LLB Group are in line with our expectations.

Impairment testing of goodwill

Key audit matter

The goodwill at the level of LLB Group in the Retail & Corporate Banking segment as at 31 December 2016 amounts to CHF 55.6 million (previous year: CHF 55.6 million) and originates from the acquisition of a subsidiary bank.

LLB Group performed impairment tests on the goodwill twice during the year. For the test, the value in use must be higher than the carrying amount. LLB Group uses a discounted cash flow (DCF) valuation method. The DCF method calculates the value in use based on the expected future cash flows. The method uses the following key assumptions and judgements:

- Assumptions regarding expected cash flows.
- Assumptions regarding the discount rate and the long-term growth rate.

Please refer to page 124 (accounting principles) and page 141 (comments on the consolidated balance sheet).

How our audit addressed the key audit matter

We based our audit on the analyses and calculations performed by Group management. With the involvement of a valuation expert, we performed the following audit procedures:

- Plausibility check of the analyses performed by LLB Group relating to the indications of a need for impairment.
- Assessment of the appropriateness of the DCF method and its implementation.
- Plausibility check of the medium-term planning of the subsidiary bank and an assessment of the expected cash flows by means of a target vs. actual comparison (backtesting).
- Plausibility check of the assumed growth rate and discount rate based on external market information.
- Tests of the sensitivity analysis of the applied parameters and assumptions.

The assumptions used by LLB Group are in line with our expectations.

Completeness and adequacy of the provisions for legal and litigation risks

Key audit matter

In the course of normal business, LLB Group is involved in various legal proceedings. The amount of the provisions for legal and litigation risks as of 31 December 2016 is CHF 47.0 million (previous year: CHF 24.0 million).

We identified the completeness and the adequacy of the provisions for legal and litigation risks as a key audit matter, as significant judgement exists in the assessment of the probability and the amount of the provisions for any financial obligations.

This includes processes to identify, evaluate and monitor client complaints as well as potential and actual legal proceedings. LLB Group creates provisions for actual and impending proceedings if, in the opinion of the specialists responsible, a cash outflow or a loss by the Group company is probable and the amount can be reliably estimated.

Please refer to page 125 (accounting principles), page 146 (comments on the consolidated balance sheet) and page 182 (risk management in relation to operational and legal risks).

How our audit addressed the key audit matter

We based our audit on the analyses performed by Group management. Further, we have referred to external lawyers' letters. We compared the analyses with our own estimates and our understanding of the legal and litigation risks.

We performed the following audit procedures:

- Inquiries of the Head of Group Legal and specific Group management members.
- Review and inspection of the list of client complaints, correspondence with the regulatory authority as well as the minutes of the meetings of the Board of Directors and the Group management for indications of potential lawsuits.
- Review of the central inventory of current legal proceedings and sample testing of lawsuits with regard to the potential need for provisions.
- Obtaining external lawyers' letters and expert opinions on selected ongoing lawsuits with regard to the probability and amount of the provisions, and comparing this with the provisions created by LLB Group as per the consolidated financial statements.

The assumptions used by LLB Group are in line with our expectations.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal controls as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The consolidated management report is in accordance with the consolidated financial statements.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Romer

Claudio Tettamanti
Auditor in charge

St. Gallen, 27 February 2017

Consolidated management report

LLB Group financial statement

The consolidated financial statement is prepared in accordance with the International Financial Reporting Standards (IFRS).

In the 2016 business year, the LLB Group earned a net profit of CHF 103.9 million (2015 business year: CHF 86.3 million). The net profit for 2016 therefore improved in comparison with the previous year by 20.4 percent or CHF 17.6 million.

In comparison with 2015, operating income rose by 18.7 percent and operating expenses by 16.8 percent. The net profit attributable to the shareholders of LLB amounted to CHF 98.2 million (2015: CHF 82.7 million). Earnings per share stood at CHF 3.40 (2015: CHF 2.87).

Income statement

Operating income rose by 18.7 percent to CHF 371.7 million (2015: CHF 313.2 million).

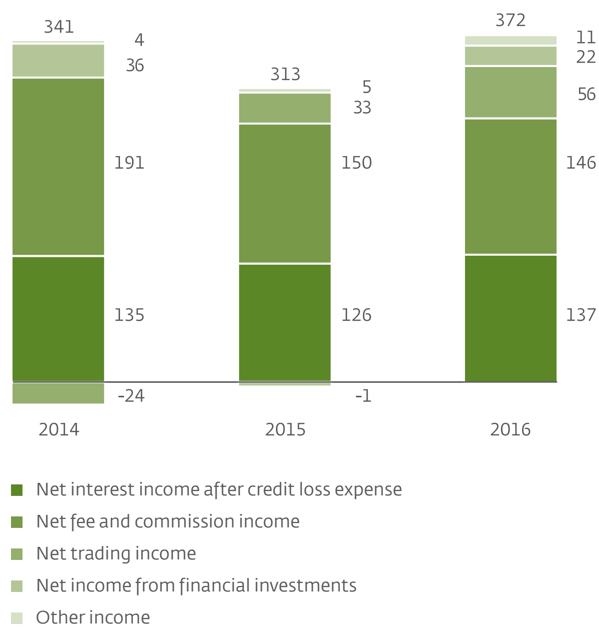
Interest income before credit loss expense was up in the 2016 business year by 4.2 percent to CHF 138.1 million (2015: CHF 132.5 million). Interest business with clients increased by 3.7 percent in comparison with the previous year. The negative effects on interest income caused by the extension of fixed-interest loans at lower conditions were compensated for by lower refinancing costs and targeted growth in mortgage lending business. In the current interest rate environment, the LLB Group in some cases pays negative interest on interest rate hedging instruments and money invested in the interbank market. In spite of this, thanks to higher interest rates on USD holdings, LLB was able to slightly improve interest business with banks by 3.2 percent or CHF 0.3 million. In the 2016 business year, a net charge of CHF 1.0 million (2015: CHF 6.0 million) was made to the income statement for credit loss expense. Net fee and commission income decreased slightly by 2.6 percent to CHF 145.7 million (2015: CHF 149.6 million). The persisting uncertainty on the financial markets led to restraint on the part of clients in making stock market transactions, which resulted in a reduction of net brokerage of 10.6 percent compared with the previous year. The recovery of the financial markets in the second half year generated higher performance-linked earnings.

Net trading income totalled CHF 55.9 million (2015: CHF 33.1 million). Client trading in foreign exchange, foreign notes and precious metals compared with the previous year fell by 2.7 percent to CHF 41.8 million. In the previous year, the trading volume in foreign exchange was unusually high in the first half year due to the SNB's lifting of support for the minimum euro exchange rate in January 2015. On account of the higher long-term market interest rates in the second six months of 2016, from the perspective of the reporting date, valuation gains on interest rate hedging instruments for the 2016 business year amounted to CHF 14.1 million (2015: minus CHF 10.1 million).

Net income from financial investments at fair value through profit and loss totalled CHF 21.8 million (2015: minus CHF 0.7 million). Income from interest and dividends decreased to CHF 14.9 million, a fall of 17.4 percent compared with the previous year on account of persistently low interest rates and a lack of investment possibilities.

Other income amounted to CHF 11.1 million in comparison with CHF 4.8 million in the previous year. The change relative to the comparison period was attributable to the proceeds from the sale of property amounting to CHF 7.5 million. Operating expenses stood at CHF 258.2 million and were thus 16.8 percent or CHF 37.1 million higher than the previous year's figure of CHF 221.1 million.

Operating income (in CHF millions)



At CHF 140.8 million, personnel expenses were up by 13.8 percent or CHF 17.1 million compared with the previous year (2015: CHF 123.8 million). The increase is attributable to the strategic expansion of personnel to 858 full-time equivalent positions (31.12.2015: 816). In addition, higher accruals were made for variable salary compensation on account of the share-price-based compensation model. Personnel expenses also include one-time expense reductions from the valuation of staff pension obligations amounting to CHF 10.2 million. In the previous year a one-time reduction of pension obligations of CHF 11.3 million had also been booked.

General and administrative expenses increased by 41.2 percent to CHF 89.9 million (2015: CHF 63.7 million). This position includes the allocation of provisions for various legal and litigation risks amounting to CHF 24.4 million (2015: write back of CHF 1.0 million). Without this effect, general and administrative expenses would have been CHF 1.8 million or 2.8 percent higher than in the previous year.

Depreciation and amortisation fell by CHF 6.1 million to CHF 27.5 million (2015: CHF 33.7 million). This was largely attributable to the one-time impairment of assets in the previous year.

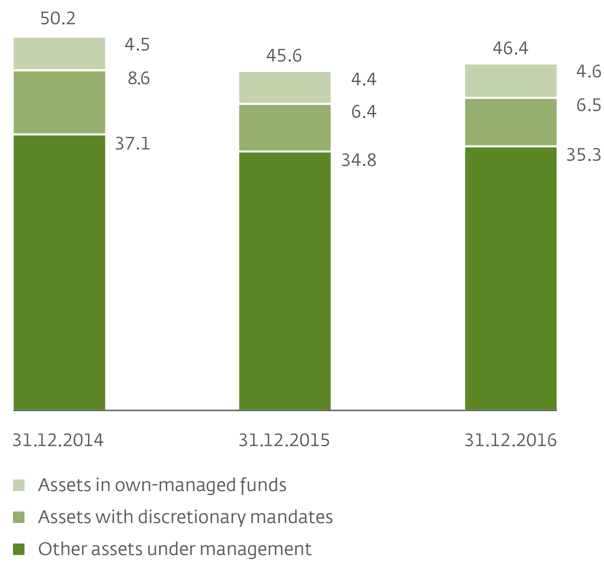
The Cost-Income-Ratio for the 2016 business year stood at 62.8 percent (2015: 69.5 %). Without market effects, i.e. without income from interest rate swaps and price gains from financial investments, the Cost-Income-Ratio stood at 66.5 percent (2015: 63.7 %).

Balance sheet

The consolidated balance sheet total remained virtually unchanged in comparison with 31 December 2015 and stood at CHF 20.0 billion (31.12.2015: CHF 19.7 billion). Loans to clients were 5.0 percent higher compared with 31 December 2015. Mortgage loans expanded by 4.2 percent to CHF 10.0 billion.

Equity attributable to the shareholders of LLB amounted to CHF 1.7 billion at 31 December 2016. The Tier 1 ratio totalled 21.0 percent (31.12.2015: 20.6 %). The return on equity attributable to the shareholders of LLB stood at 5.9 percent (2015: 5.0 %).

Assets under management (in CHF millions)



Assets under management

Assets under management at 31 December 2016 stood at CHF 46.4 billion (31.12.2015: CHF 45.6 billion). The LLB Group attained a performance-related increase in assets under management of 1.9 percent. Assets in own-managed funds climbed by 3.5 percent to CHF 4.6 billion (31.12.2015: CHF 4.4 billion) and assets with discretionary mandates by 2.3 percent to CHF 6.5 billion (31.12.2015: CHF 6.4 billion). Other assets under management amounted at 31 December 2016 to CHF 35.3 billion (31.12.2015: CHF 34.8 billion).

The LLB Group registered net new money outflows of CHF 65 million (2015: minus CHF 206 million). Outflows have therefore slowed down. In contrast, however, the Retail & Corporate Banking segment generated very robust inflows of CHF 334 million from private and corporate clients in the domestic Swiss and Liechtenstein markets. And the Private Banking segment also posted gratifying inflows totalling CHF 173 million, especially from the strategic growth markets. On account of individual larger outflows with public institutions and in cross-border business, net new money inflows in the Institutional Clients segment amounted to minus CHF 568 million.

Outlook

The LLB Group is confronted with economic and industry-specific challenges. The business environment is marked by the strength of the Swiss franc, negative interest rates and volatile financial markets. This is exacerbated by political uncertainties, increasing regulation and the accelerated pace of change with information technology, which will continue to challenge the banking industry. Thanks to its focused business model and its clear StepUp2020 strategy, the LLB Group views the future with confidence. In spite of the challenging business conditions, it expects to achieve further operative progress and a solid business result in the 2017 business year.

Consolidated income statement

in CHF thousands	Note	2016	2015	+ / − %
Interest income	1	176'971	182'801	−3.2
Interest expenses	1	−38'905	−50'347	−22.7
Net interest income	1	138'067	132'454	4.2
Credit loss (expense) / recovery	13	−989	−6'036	−83.6
Net interest income after credit loss expense		137'078	126'418	8.4
Fee and commission income	2	171'930	174'897	−1.7
Fee and commission expenses	2	−26'191	−25'272	3.6
Net fee and commission income	2	145'739	149'625	−2.6
Net trading income	3	55'943	33'084	69.1
Net income from financial investments at fair value	4	21'836	−736	
Share of net income of joint venture	17	0	−13	−97.3
Other income	5	11'070	4'785	131.4
Total operating income		**371'665**	**313'163**	**18.7**
Personnel expenses	6	−140'835	−123'782	13.8
General and administrative expenses	7	−89'859	−63'653	41.2
Depreciation and amortisation	8	−27'548	−33'657	−18.2
Total operating expenses		**−258'242**	**−221'093**	**16.8**
Operating profit before tax		**113'423**	**92'070**	**23.2**
Tax expenses	9	−9'554	−5'770	65.6
Net profit		**103'869**	**86'301**	**20.4**
Of which attributable to:				
Shareholders of LLB		98'181	82'728	18.7
Non-controlling interests	33	5'688	3'573	59.2
Earnings per share attributable to the shareholders of LLB				
Basic earnings per share (in CHF)	10	3.40	2.87	18.6
Diluted earnings per share (in CHF)	10	3.40	2.87	18.6

Consolidated statement of comprehensive income

in CHF thousands	Note	2016	2015	+ / – %
Net profit		103'869	86'301	20.4
Other comprehensive income (net of tax), which can be reclassified to the income statement				
Foreign currency translation		– 541	– 2'280	– 76.3
Value changes to financial investments available for sale		5'600	864	548.3
Reclassified (gains) / losses to the income statement from financial investments available for sale		– 1'522	59	
Tax effects	25	– 393	0	
Total other comprehensive income (net of tax), which can be reclassified to the income statement		**3'144**	**– 1'358**	
Other comprehensive income (net of tax), which can not be reclassified to the income statement				
Actuarial gains / (losses) of pension plans	40	– 15'778	– 21'724	– 27.4
Tax effects	25	1'935	1'519	27.4
Total other comprehensive income (net of tax), which can not be reclassified to the income statement		**– 13'843**	**– 20'205**	**– 31.5**
Comprehensive income for the period		**93'170**	**64'738**	**43.9**
Of which attributable to:				
Shareholders of LLB		87'457	62'988	38.8
Non-controlling interests		5'713	1'750	226.4

Consolidated balance sheet

in CHF thousands	Note	31.12.2016	31.12.2015	+ / – %
Assets				
Cash and balances with central banks	11	3'450'726	2'559'972	34.8
Due from banks	12	3'114'861	4'254'074	– 26.8
Loans	13	11'538'876	10'991'490	5.0
Trading portfolio assets	14	3'781	2'450	54.4
Derivative financial instruments	15	82'607	62'013	33.2
Financial investments at fair value	16	1'438'618	1'438'608	0.0
Investment in joint venture	17	47	47	– 0.8
Property and equipment	18	124'969	123'321	1.3
Investment property	18	16'018	16'240	– 1.4
Goodwill and other intangible assets	19	118'432	124'493	– 4.9
Current tax assets		1'205	0	
Deferred tax assets	25	18'809	23'669	– 20.5
Accrued income and prepaid expenses		32'568	45'927	– 29.1
Non-current assets held for sale	35	845	0	
Other assets	20	15'767	27'820	– 43.3
Total assets		**19'958'129**	**19'670'122**	**1.5**
Liabilities				
Due to banks	22	622'932	673'634	– 7.5
Due to customers	23	15'860'465	15'627'049	1.5
Derivative financial instruments	15	161'976	151'593	6.8
Debt issued	24	1'228'035	1'213'244	1.2
Current tax liabilities		10'398	6'172	68.5
Deferred tax liabilities	25	13'745	21'617	– 36.4
Accrued expenses and deferred income		26'228	27'891	– 6.0
Provisions	26	51'071	25'354	101.4
Other liabilities	27	176'905	164'224	7.7
Total liabilities		**18'151'755**	**17'910'777**	**1.3**
Equity				
Share capital	28	154'000	154'000	0.0
Share premium	29	24'968	25'785	– 3.2
Treasury shares	30	– 167'045	– 168'584	– 0.9
Retained earnings	31	1'758'816	1'709'205	2.9
Other reserves	32	– 74'511	– 63'849	16.7
Total equity attributable to shareholders of LLB		**1'696'228**	**1'656'558**	**2.4**
Non-controlling interests	33	110'146	102'787	7.2
Total equity		**1'806'374**	**1'759'345**	**2.7**
Total liabilities and equity		**19'958'129**	**19'670'122**	**1.5**

Consolidated statement of changes in equity

in CHF thousands	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
		attributable to shareholders of							
As at 1 January 2014		154'000	26'299	−167'816	1'645'490	−5'663	1'652'309	103'934	1'756'243
Net profit					70'175		70'175	1'920	72'095
Other comprehensive income						−38'445	−38'445	−4'509	−42'954
Net movements in treasury shares			−513	−768			−1'281		−1'281
Dividend 2013, paid 2014					−43'315		−43'315		−43'315
Dividend to non-controlling interests 2013, paid 2014							0	−1'595	−1'595
Increase / (Reduction) in non-controlling interests							0	1'771	1'771
Changes from own interests in fully consolidated companies					−485		−485		−485
Other changes					−591		−591		−591
As at 31 December 2014		**154'000**	**25'785**	**−168'584**	**1'671'273**	**−44'108**	**1'638'366**	**101'521**	**1'739'888**
Net profit					82'728		82'728	3'573	86'301
Other comprehensive income						−19'741	−19'741	−1'822	−21'563
Net movements in treasury shares	29 / 30		0	0			0		0
Dividend 2014, paid 2015	31				−43'233		−43'233		−43'233
Dividend to non-controlling interests 2014, paid 2015	33						0	−1'609	−1'609
Increase / (Reduction) in non-controlling interests	33						0	1'124	1'124
Changes from own interests in fully consolidated companies	31				−227		−227		−227
Other changes	31				−1'336		−1'336		−1'336
As at 31 December 2015		**154'000**	**25'785**	**−168'584**	**1'709'205**	**−63'849**	**1'656'558**	**102'787**	**1'759'345**
Net profit					98'181		98'181	5'688	103'869
Other comprehensive income						−10'724	−10'724	25	−10'699
Net movements in treasury shares	29 / 30		−818	1'539			721		721
Dividend 2015, paid 2016	31				−46'145		−46'145		−46'145
Dividend to non-controlling interests 2015, paid 2016	33						0	−1'623	−1'623
Increase / (Reduction) in non-controlling interests	31 / 32 / 33				−2'426	62	−2'363	3'269	906
As at 31 December 2016		**154'000**	**24'968**	**−167'045**	**1'758'816**	**−74'511**	**1'696'228**	**110'146**	**1'806'374**

Consolidated statement of cash flows

in CHF thousands	Note	2016	2015
Cash flow from / (used in) operating activities			
Interest received (excluding financial investments)		194'923	195'676
Interest received from financial investments at fair value		21'903	17'304
Dividends received from financial investments at fair value	4	819	1'216
Interest paid		−43'815	−50'848
Fees and commission received		168'557	157'842
Fees and commission paid		−25'469	−14'478
Trading income		41'982	43'232
Other income		4'528	3'145
Payments for personnel, general and administrative expenses		−197'181	−200'124
Other expenses		0	−340
Income tax paid		−7'600	−8'717
Cash flow from operating activities, before changes in operating assets and liabilities		158'648	143'909
Net due from / to banks		1'111'606	1'315'982
Trading portfolio and net replacement values		2'419	−485
Loans / Due to customers		−318'890	−430'000
Other assets		10'626	21'148
Other liabilities		−4'193	−5'532
Changes in operating assets and liabilities		801'568	901'113
Net cash flow from / (used in) operating activities		**960'215**	**1'045'022**

Cash flow from / (used in) investing activities			
Purchase of property and equipment	18	−32'573	−10'656
Disposal of property and equipment	18	26'457	2'001
Purchase of investment property	18	0	−1'240
Disposal of investment property		222	6'383
Purchase of other intangible assets	19	−8'999	−3'074
Disposal of other intangible assets	19	1	0
Purchase of financial investments at fair value		−516'112	−519'064
Disposal of financial investments at fair value		518'979	390'616
Sale of fully consolidated companies, net of cash		0	6'956
Net cash flow from / (used in) investing activities		**−12'025**	**−128'079**

in CHF thousands	Note	2016	2015
Cash flow from / (used in) financing activities			
Disposal of treasury shares	30	1'539	0
Dividends paid	31	−46'145	−43'233
Dividends paid to non-controlling interests	33	−1'623	−1'609
Increase in non-controlling interests	31 / 32 / 33	906	1'124
Decrease in non-controlling interests		0	227
Issuance of medium-term debt		201'203	289'716
Repayment of medium-term debt		−190'488	−229'434
Net cash flow from / (used in) financing activities		**−34'608**	**16'791**
Effects of foreign currency translation		264	−31'080
Net increase / (decrease) in cash and cash equivalents		**913'848**	**902'655**
Cash and cash equivalents at beginning of the period		3'043'279	2'140'624
Cash and cash equivalents at end of the period		**3'957'127**	**3'043'279**
Cash and cash equivalents comprise:			
Cash and balances with central banks	11	3'450'726	2'559'972
Due from banks (due daily)	12	506'401	483'307
Total cash and cash equivalents		**3'957'127**	**3'043'279**

Accounting principles

1 Basic information

The LLB Group offers a broad spectrum of financial services. Of particular importance are asset management and investment counselling for private and institutional clients, as well as retail and corporate client businesses.

The Liechtensteinische Landesbank Aktiengesellschaft, founded in and with its registered office located in Vaduz, Principality of Liechtenstein, is the parent company of the LLB Group. It is listed on the SIX Swiss Exchange.

The Board of Directors reviewed this consolidated annual statement at its meeting on 27 February 2016 and approved it for publication.

2 Summary of significant accounting policies

The significant accounting and valuation methods employed in the preparation of this consolidated financial statement are described in the following. The described methods have been consistently employed for the reporting periods shown, provided no statement to the contrary is specified.

2.1 Basis for financial accounting

The consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS).

Further basis for the preparation of the financial statement

The Group financial statement was prepared on the basis of historical acquisition or production cost with the exception of the revaluation of certain financial assets and liabilities.

Numerous new IFRS standards, as well as amendments and interpretations of existing IFRS standards, were published and became effective for financial years starting on 1 January 2016 or later. The following new or revised IFRS standards or interpretations are of importance for the LLB Group:

- IAS 12 "Income Taxes" – The amendments clarify how deferred tax claims from unrealised losses on assets reported at fair value are to be recognised. The standard is to be applied retroactively and comes into effect on 1 January 2017. An earlier implementation is possible, but the LLB Group has not done so. The implementation of the changes has no major influence on the LLB Group's financial statement.
- IAS 40 "Investment Property" – The amendments stipulate that in future the transfer of real estate into or out of the inventory of real estate held as financial investments is to be assessed on a principle-based basis. In future, transfers will only be made if there is a change of use. In this case, it is to be assessed whether a property meets the definition of real estate held as a financial investment. In addition the change of use must be evidenced, i.e. there must be objective evidence of, and not just an intention for, a change of use. In comparison with the previous ruling, the list of examples was changed from an exhaustive to a non-exhaustive list. In relation to operating leases, in future the commencement of the leasing relationship will be relevant as the time point of the transfer, and no longer the start of the lease term. The amendments are effective for periods on or after 1 January 2018. Retrospective application is also possible if this is possible without the use of hindsight. An earlier implementation is possible, but the LLB Group will not do so. The implementation of the changes has no major influence on the LLB Group's financial statement.
- IFRS 2 "Share-based Payment" – The amendments concern rulings in connection with cash-settled share-based payments. An exception will continue to apply to share-based payments involving a so-called net settlement feature. In this case, the tax to be paid by the employee will be paid directly to the competent tax authority by the company. Accordingly, the employee retains only the share-based payment amounting to the balance from the original entitlement and the tax liability. Only the net settlement feature could be of future relevance for LLB. At the moment this situation does not exist. The new rulings come into effect on 1 January 2018. Retrospective application is also possible if this is possible without the use of hindsight. An earlier implementation is possible, but the LLB Group will not do so. The implementation of the changes has no major influence on the LLB Group's financial statement.
- IFRS 9 "Financial Instruments" – IFRS 9 is divided into three phases: classification and measurement, impairment and hedge accounting. The classification and measurement of financial instruments are made on the basis of the business model of the bank for the management of financial instruments and the contractual cash flow characteristics of the financial assets. The financial instruments are classified in the "Hold" business model and measured at amortised cost, if the purpose of the financial instrument is to generate interest earnings and payment of the principal upon maturity. If the financial instruments are held for liquidity management reasons, i.e. for the purpose of holding and sale, then the instruments are to be recognised at fair value through other comprehensive income. Gains and losses from this business model are booked in the statement of other comprehensive income and equity. Financial instruments which do not fulfil the SPPI criteria or which are used for the fair value option are to be classified as fair value through profit or loss. The new regulations will have no major impact because the LLB Group already reports the financial assets under IAS 39 in such a way that these correspond to the requirements of IFRS 9. Currently, there is a discussion about whether financial instruments are to be recognised at amortised cost, which permits early repayment and where the debtor is entitled to utilise the option of early repayment. The models under discussion concern financial instruments, or mortgage loans, which enable a symmetrical early repayment or an early repayment at fair value. By utilising the option, there is a possibility that the debtor could be compensated by the creditor. The board has decided to formulate

a closely defined exception which permits instruments with symmetrical early repayment penalties to be reported in the balance sheet at amortised cost or at fair value with recognition of the changes in other comprehensive income, even though they do not fulfil the criteria as "solely payments of principal and interest on the outstanding capital amount". The proposed implementation date for this exception is 1 January 2018. This issue has no relevance for the LLB Group because basically agreements are concluded with clients which envisage unilateral compensation for the bank's lost interest in the event of early repayment.

On the basis of IFRS 9, impairments are to be recognised at an early stage (expected loss model). The amount of the impairment is determined on the basis of the classification of the financial instrument in one of the following three stages. In stage 1 there is no significant deterioration in credit quality and impairments amounting to the cash value of a 12-month expected credit loss are to be recognised. If there is no objective indication of an impairment, but a significant increase in credit risk has occurred, the impairment is to be recognised in the expected life-time credit loss (stage 2). In stage 3, there must be an objective indication of an impairment and a single allowance (life-time expected loss) is to be made for this financial instrument. These three stages are to be reviewed on every balance sheet key date. The LLB Group is currently installing a software application to enable the correct replication of the requirement to measure the expected losses. Various models are used in the calculation, which take into consideration the possible future probability of default by the counterparty, the expected loss, and also the loss given default. In addition, macro-economic forecasts are included in the calculation. The evaluation of which values should be applied to input parameters in the models, for example, what a significant increase in risk means and which level a financial instrument should be assigned to, therefore necessitate a high degree of judgement. These estimates determine the credit quality of the financial assets, which are exposed to a credit risk, and which in turn have an impact on the magnitude of the expected losses. Generally, it is expected the expected loss model under IFRS 9 will lead to higher value adjustments.

In addition, IFRS 9 regulates hedge accounting, whereby it seeks to standardise risk management and accounting. Hedges are to be better reflected in the financial accounts.

At present the LLB Group employs macro hedge accounting at portfolio level, which is not yet regulated under IFRS 9. Until the completion of the IASB project in macro-hedge accounting, LLB can continue to follow unchanged its previous approach under IFRS 9. Consequently, there are no major effects on the LLB Group. The new standard comes into effect on 1 January 2018. An earlier implementation is possible, but the LLB Group will not do so. It will be applied retrospectively except for other provisions in individual paragraphs. In the case of paragraph 7.2.15, which deals with the disclosure of details concerning financial instruments in paragraphs 42L – 42O under IFRS 7, the LLB Group will provisionally choose the simplified application form, i.e. it will not show the comparison periods for the provisions specified there.

- IFRS 15 "Revenue from Contracts with Customers" – In May 2014, the International Accounting Standards Board (IASB), together with the Financial Accounting Standards Board (FASB), issued new regulations for the recognition of revenue, which completely replace the existing USGAAP and IFRS rulings for the recognition of revenue. The recognition requires that revenue be shown as goods or services transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 contains a 5-step model to calculate the revenue, whereby the type of transaction or the industry, in which the company operates is irrelevant. Furthermore the standard includes guidelines concerning the costs for the attainment and performance of a contract, as well as when such costs are to be capitalised. The standard specifies additional disclosures. In general, for LLB, the introduction of IFRS 15 will have only a slight influence on the recognition, balancing, presentation and disclosure of such items. The primary reason for this is that IFRS 15 is aimed mainly at industrial sectors and less at the financial services industry. Revenues from financial instruments, which represent the main business of LLB, do not fall under the provisions of IFRS 15 but rather are shown according to IFRS 9. Currently, revenues from fees and commissions are reported in one position (one line). In future, if they are material, further positions (lines) will be shown in a table to enable a more detailed presentation. LLB is therefore following the amendments to IAS 1 within the scope of the Disclosure Initiative, which are to be applied from 1 January 2016. According to one's discretion, lines showing aggregated revenues may be presented, provided they do not bring the reader additional benefits if listed individually. The new standard comes into effect from 1 January 2018. An earlier implementation is possible, but the LLB Group will not do so. It will be applied retrospectively and on the basis of simplified transition provisions.
- IFRS 16 "Leasing" – The new standard regulates the recognition and disclosure of leasing contracts. Leasing contracts are understood to be contracts that convey the right to use an asset for a period of time in exchange for a consideration. This can be, for example, the leasing of premises or equipment. The IFRS 16 contains no material threshold values for when a leasing contract is to be recognised as an asset, rather all substantial leasing contracts are basically to be entered in the accounts. However options exist for short-term leasing terms (shorter than 12 months) and for low-value assets. The entering of leasing contracts in the financial accounts leads to a balance sheet extension, which basically has a negative impact on the regulatory required equity and also on the corresponding regulatory key figures, such as the Tier 1 ratio. The standard comes into effect on 1 January 2019. An earlier implementation is possible, but the LLB Group will not do so. It will be applied retrospectively, either completely or in a modified form. The effects of these changes on the LLB Group's financial reporting are currently being analysed.

- Disclosure Initiative of the IASB – The IASB has started a project to explore how disclosures in IFRS financial reporting can be improved. This encompasses several smaller adjustments to the existing standard in addition to the comprehensive revision of the conceptual framework, as well as a fundamental revision of IAS 1 ("Presentation of Financial Statements"), IAS 7 ("Statement of Cash Flows") and IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors") ». The following explanations refer to the small adjustments to be made to the existing standards. The aim of the changes to IAS 1 is to provide companies with more latitude in how data is presented, e.g. by the aggregation or disaggregation of information. Basically, the issue of materiality also plays a role. Materiality has to be viewed in relation to the entirety of the presented information. This can mean that specific details in standards are not presented if these are classed as being immaterial. The changes came into effect from 1 January 2016. The amendments to IAS 7 refer to changes in financial obligations arising from financing activity, including a separation into cash and non-cash changes. These come into effect from 1 January 2017. An earlier implementation is possible, but the LLB Group will not make use of this possibility. The standard will be applied prospectively.

Within the scope of its annual improvements, the IASB published further improvements (Annual Improvements to IFRS 2012 – 2014 Cycle), which came into effect on 1 January 2016. The implementation of the amendments has no major influence on the financial statement of the LLB Group.

Use of estimates in the preparation of financial statements

In preparing the financial statements in conformity with IFRS, the management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of information available to LLB on the balance sheet date and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences could be substantial to the financial statements.

The IFRS contains guidelines which require the LLB Group to make estimates and assumptions when preparing the consolidated financial statement. Allowances for credit loss risks, goodwill, intangible assets, provisions for legal and litigation risks, fair value conditions for financial instruments and value adjustments for pension plans are all areas which leave large scope for estimate judgments. Assumptions and estimates made in theses areas could be substantial to the financial statement. Explanations regarding this point are shown under notes 13, 19, 26, 34 and 40.

2.2 Consolidation policies

The consolidated financial statement adopts a business perspective and follows a financial format. The consolidation period corresponds to the calendar year. The financial year is identical to the calendar year for all consolidated companies. Solely LLB Invest AGmvK and LLB Qualified Investors AGmvK have a different financial year; however, these companies are negligible for the preparation of the consolidated financial statement. The Swiss franc (CHF), the currency of the country in which LLB AG has its registered office, serves as the reporting currency of the LLB Group.

Subsidiaries

The consolidated financial statement incorporates the financial accounts of Liechtensteinische Landesbank AG and its subsidiaries. LLB Group companies, in which Liechtensteinische Landesbank AG holds, directly or indirectly, the majority of the voting rights or otherwise exercises control, are fully consolidated. Subsidiaries acquired are consolidated from the date control is transferred to Liechtensteinische Landesbank AG, and are no longer consolidated from the date this control ends.

The consolidation is carried out according to the purchase method. The effects of intra-group transactions and balances are eliminated in preparing the financial statements. Transactions with minorities are booked to equity.

Equity attributable to minority interests is presented in the consolidated balance sheet in equity, separately from equity attributable to LLB shareholders. Net profit attributable to minority interests is shown separately in the income statement.

Participations in joint ventures

Joint ventures, i.e. companies in which LLB has a 50 percent participation, are recognised according to the equity method.

Changes to the scope of consolidation

There were no changes to the scope of consolidation in the 2016 business year.

2.3 General principles

Recording of business

Sales and purchases from trading assets, derivative financial instruments and financial investments are booked on the transaction date. Loans, including those to clients, are recorded in that period of time in which the funds flow to the borrower.

Income accrual

Income from services is recorded at the time the service was rendered. Asset management fees, safe custody fees and similar types of income are recorded on a pro rata basis over the period the specific service is provided. Interest income is recorded using the effective interest method. Dividends are recorded at the time point a legal claim comes into existence.

Inland versus abroad

"Inland" encompasses the Principality of Liechtenstein and Switzerland.

2.4 Foreign currency translation

Functional currency and reporting currency

The items contained in the financial accounts of each Group company are valued in the currency which is used in the primary business environment in which the company operates (functional currency).

The reporting currency of the LLB Group is the Swiss franc.

Group companies

Group companies which report their financial accounts in a functional currency other than the Group's reporting currency are translated as follows: all assets and liabilities are converted at the relevant exchange rate valid on the balance sheet date. All individual items in the income statement and statement of cash flows are converted at the average exchange rate for the accounting period. All resulting exchange differences are booked individually to equity or other comprehensive income.

Transactions and balances

Foreign currency transactions are translated on the day of the transaction at spot rates into the functional currency. Monetary assets and liabilities in foreign currency are translated on the balance sheet date at the exchange rate prevailing on the reporting date into the functional currency. The price gains or losses resulting from the valuation are booked to the income statement. Non-monetary foreign currency positions measured at fair value are translated at the exchange rate prevailing on the date of the calculation of the fair value. The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2016	31.12.2015
1 USD	1.0167	0.9989
1 EUR	1.0726	1.0871
1 GBP	1.2588	1.4783

Average rate	2016	2015
1 USD	0.9889	0.9672
1 EUR	1.0895	1.0751
1 GBP	1.3397	1.4772

2.5 Cash and balances with central banks

Cash and balances with central banks consist of cash in hand, postal cheque balances, giro and sight deposits at the Swiss National Bank and foreign central banks, as well as clearing credit balances at recognised central savings and clearing banks, claims from money market instruments with an original maturity period of less than three months as well as loans due from banks (due daily).

2.6 Balances due from banks and from customers

Balances due from banks and from customers are initially recorded at actual cost, corresponding to the fair value of the specific loan at the time it was granted. Subsequent valuation reflects the amortised cost under application of the effective interest rate method.

Interest on balances due from banks and from customers is recognised on an accrual basis and is reported according to the effective interest method, included under the item interest income.

Negative interest on assets and liabilities is accrued in a period-compliant manner and reported in the income statement as interest paid or interest received.

Basically, the LLB Group extends loans only on a collateralised basis, and only to counter parties having very high credit worthiness.

Loans are regarded as being impaired if it is likely that the entire amount owed according to the loan agreement is not recoverable. Loan impairments are caused by country- or counterparty-specific criteria. Indications for the impairment of financial assets are:

- the financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the increased probability that the borrower will enter bankruptcy or financial reorganisation;
- national or local economic conditions that correlate with defaults on the assets of the Group.

The amount of the impairment is measured as the difference between the carrying value of the claim and the estimated future cash flow, discounted by the loan's original effective interest rate. Allowances for credit risks is reported as a reduction of the carrying value of a claim on the balance sheet, whereas for an off-balance sheet item, such as a commitment, a provision for credit loss is reported under provisions. Impairments are recognised in the income statement.

2.7 Trading portfolio assets

Trading portfolio assets comprise equities, bonds and structured financial products. Financial assets held for trading purposes are recorded at fair value. Short positions in securities are reported as trading portfolio liabilities at fair value. Realised and unrealised gains and losses as well as interest and dividends are recorded in net trading income.

Fair value is based on current market prices in the case of an active market. In the absence of an active market, fair value is calculated on the basis of valuation models (see 2.9 "Financial investments").

2.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are valued as positive or negative replacement values corresponding to fair value and are reported in the balance sheet. Fair value is calculated on the basis of exchange quotations; in the absence of these, valuation models are employed. Derivative financial instruments are held within the LLB Group for hedging and trading purposes. If the derivative financial instruments held for hedging purposes do not fulfil the strict IFRS hedge accounting criteria, changes in fair value are recognised, as with derivative financial instruments for trading purposes, in net trading income. Within the LLB Group, income effects of hedging transactions according to hedge accounting guidelines arise only with the ineffective component, the effects of the effective component neutralise each other.

Hedge accounting

Within the scope of risk management, derivative financial instruments are employed mainly to manage interest rate and foreign currency risks. If these transactions fulfil the IFRS-specific hedge accounting criteria, and if these were employed as hedging instruments from a risk management perspective, they can be shown according to hedge accounting guidelines. If these transactions do not fulfil the IFRS-specific hedge accounting criteria, they are not presented according to hedge accounting guidelines, even if from an economic point of view they represent hedging transactions and are consistent with the risk management principles of the LLB Group.

The LLB Group employs fair value hedge accounting for interest rate instruments. In this case, the interest rate risks of the underlying transaction (e.g. a fixed-rate mortgage) are hedged by means of hedging instruments (e.g. an interest rate swap). Fair value hedge accounting is applied at the portfolio level, whereby one hedging instrument is used to secure one or more underlying transactions. The effect on income of the fair value change in the hedging instrument is recognised in the income statement in the same position as the corresponding effect on income of the fair value changes in the hedged underlying transactions.

In the case of the hedging of interest rate risks at the portfolio level, the fair value change in the hedged item is recognised in the same balance sheet position as the underlying item. As soon as a financial instrument is classified as a hedging instrument, and the hedging instrument fulfils the IFRS-specific hedge accounting criteria, the relationship between the hedging instrument and the hedged underlying transaction or the portfolio of underlying transactions is formally documented. This documentation contains the risk management goals and strategies for the underlying hedged relationship, as well as methods to assess the effectiveness, i.e. the effectiveness of the hedging relationship. The effectiveness of a hedging transaction is understood to be the extent to which changes in the fair value of the underlying transaction, which are attributable to a hedged risk, can be compensated for by changes in the fair value of the hedging transaction. An assessment is made, both when the hedging relationship is first applied and during its term, of whether it can regarded as "highly effective". A hedge is regarded as being highly effective if: a) it is assessed as being highly effective both when the hedge is initially recognised and during the entire term of the transaction, and b) the actual results of the hedging transaction lie within a range of 80 to 125 percent. The part outside the range of 80 to 125 percent is classed as being ineffective.

If fair value hedge accounting is employed for reasons other than the derecognition of the hedged transaction, the amount, which is reported in the same balance sheet position as the underlying transaction, is amortised over the residual term of the underlying transaction in the income statement.

2.9 Financial investments

According to IFRS, financial investments can be divided into various categories. The classification depends on the purpose for which the individual financial investments were made. The management of the LLB Group determines the classification upon initial recognition. In the 2016 business year and in the 2015 business year, financial investments were classified in the category "Financial investments at fair value through profit and loss", as well as the category "Available-for-sale financial assets". All value adjustments with the category "Financial investments at fair value through profit and loss" are recognised in the income statement. All value adjustments with the category "Available-for-sale financial assets" are reported in other comprehensive income.

This designation of the financial investments is in line with LLB's investment strategy. The securities are managed on a fair value basis and their performance is evaluated accordingly. The members of the Group Executive Management receive the corresponding information.

Financial assets at fair value through profit and loss

Financial assets are recorded on the balance sheet at fair value. Non-realised gains and losses are reflected in the income statement at fair value under income from financial instruments. The fair value of listed shares is based on current market prices. If an active market is not available for financial assets, or if the assets are not listed, the fair value is determined by way of suitable valuation models. These encompass references to recent transactions between independent business partners, the application of the current market prices of other assets which are essentially similar to the assets being valued, discounted cash flows and external pricing models, which take into account the special circumstances of the issuer. See also note 34.

Interest and dividend income from financial investments is recorded at fair value as income from financial instruments. Interest income is recognised on an accrual basis.

Available-for-sale financial assets

Financial assets which are available for sale are recognised at fair value. Value changes, such as unrealised gains or losses, are reported in other comprehensive income. The fair value of these financial assets is measured on the basis of listed shares. If no active market exists or the assets are not listed on an exchange, the fair value is determined, similar to financial assets at fair value through profit and loss, by means of suitable valuation models. See also note 34.

Interest and dividend earnings are recognised in the income statement. Interest is reported on an accrual basis.

2.10 Property, investment property and other equipment

Property is reported in the balance sheet at acquisition cost less any depreciation necessary for operational reasons. Bank buildings are buildings held by the LLB Group for use in the delivery of services or for administration purposes, whereas investment property is held to earn rentals and / or for capital appreciation. If a property is partially used as investment property, the classification is based on whether or not the two portions can be sold separately. Investment property is periodically valued by external experts. Changes in fair value are recognised in the income statement as other income in the current period. If the portions of the property can be sold separately, each portion is booked separately. If the portions cannot be sold separately, the whole property is classified as a bank building unless the portion used by the bank is minor.

Equipment includes fixtures, furnishings, machinery and IT equipment. These items are entered in the financial accounts and depreciated over the estimated useful life of the asset.

Depreciation is conducted on a straight-line basis over the estimated useful life as follows:

Property	33 years
Investment property	no depreciation
Undeveloped land	no depreciation
Building supplementary costs	10 years
Fixtures, furnishings, machinery	5 years
IT equipment	3 years

Small value purchases are charged directly to general and administrative expense. In general, maintenance and renovation expenditures are booked to general and administrative expense. If the related cost is substantial and results in a significant increase in value, such expenditures are capitalised and depreciated over their useful life. Profits from the sale of fixed assets are reported as other income. Losses result in additional write-downs on fixed assets.

Property and equipment is regularly reviewed for impairment, but always when, on account of occurrences or changed circumstances, an overvaluation of the carrying value appears to be possible. If, as a result of the review, a reduction in value or modified useful life is determined, the residual carrying value is depreciated over the adjusted useful life, or an unplanned write-down is made.

2.11 Non-current assets held for sale

Long-term assets (or a disposal group) are classified as held for sale, if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. For this to be the case, the asset (or the disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets (or disposal groups) and such a sale must be highly probable. Long-term assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell, unless the items shown in the disposal group are not classified in the valuation rules of IFRS 5 "Non-current assets held for sale and discontinued operations".

2.12 Goodwill and other intangible assets

Goodwill is defined as the difference between the purchase price paid for and the determined fair value at date of acquisition of identified net assets in a company purchased by the LLB Group. Other intangible assets contain separately, identifiable intangible values resulting from acquisitions and certain purchased brands / trademarks and similar items. Goodwill and other intangible assets are recognised on the balance sheet at cost determined on the date of acquisition, and are amortised using the straight-line method over the useful life of ten to fifteen years. On each balance sheet date, goodwill and other intangible assets are reviewed for indications of impairment or changes in future benefits. If such indications exist, an analysis is performed to assess whether the carrying value of goodwill or other intangible assets is fully recoverable. An amortisation is made if the carrying amount exceeds the recoverable amount. For impairment testing purposes, goodwill is distributed into cash generating units. A cash generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. Cash flows generated from independent groups of assets are largely determined on the basis of how management steers and manages business activity. The management of the LLB Group manages and steers business activity in divisions so that the divisions and segments are designated as the cash generating units of the Group.

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is possible that economic benefits will flow to the company, and the cost can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to ten years. See also note 19.

2.13 Current and deferred taxes

Current income tax is calculated on the basis of the tax law applicable in the individual country and recorded as expense for the accounting period in which the related income was earned. The relevant amounts are recorded on the balance sheet as provisions for taxes. The tax impact from time differentials due to different valuations arising from the values of assets and liabilities reported according to IFRS shown on the Group balance sheet and their taxable value are recorded on the balance sheet as accrued tax assets or, as the case may be, deferred tax liabilities. Deferred tax assets and deferred tax liabilities attributable to time differentials or accountable loss carry forwards are capitalised if there is a probability that sufficient taxable profits will be available to offset such differentials of loss carry forwards. Accrued / deferred tax assets / liabilities are calculated at the tax rates that are likely to be applicable for the accounting period in which the tax assets are realised or the tax liabilities paid.

Current and deferred taxes are credited or charged directly to equity or other comprehensive income if the related tax pertains to items that have been credited or charged directly to equity or other comprehensive income in the same or some other accounting period.

2.14 Debt issued

Medium-term notes are recognised at fair value, which usually corresponds to the issuance value, and at amortised cost. Debt instruments, which contain an embedded option for conversion of the debt into shares of LLB AG, are separated into a liability and an equity component. The difference between the proceeds of the issue price and the fair value of the instrument on the issue date is booked directly to equity. The fair value of the liability component on the issue date is determined on the basis of the market interest rate for comparable instruments without conversion rights. Thereafter, it is recognised at ongoing cost according to the effective interest method. Differences between the proceeds and the repayment amount are reported in profit and loss over the term of the debt instrument concerned. The LLB Group does not report changes in the value of the equity component in the following reporting periods.

2.15 Employee benefits

Retirement benefit plans

LLB Group has pension plans for its employees in Liechtenstein and abroad, which are defined according to IFRS as defined benefit plans. In addition there are long-term service awards which qualify as other long-term employee benefits.

For benefit-oriented plans, the period costs are determined by opinions obtained from external experts. The benefits provided by these plans are generally based on the number of insured years, the employee's age, covered salary and partly on the amount of capital saved. For benefit-oriented plans with segregated assets, the relevant funded status is recorded on the balance sheet as an asset or liability (in accordance with the Projected Unit Credit Method). An asset position is calculated according to the criteria of IFRIC 14.

For plans without segregated assets, the relevant funded status recorded on the balance sheet corresponds to the cash value of the claims.

The cash value of the claims is calculated using the "Projected Unit Credit Method", whereby the number of insured years accrued up to the valuation date are taken into consideration.

The effects of retroactive improvements to benefits resulting from plan changes and plan curtailments are recognised directly in the income statement.

Variable salary component and share-based remuneration

Regulations exist governing the payment of variable salary components. The valuation procedure with the variable salary component is based on the degree of individual target achievement. Executives receive a portion of their profit-related bonus in the form of LLB bearer shares. However, no exercising conditions are attached to this procedure.

The LLB Group enters a provision as a liability in those cases where a contractual obligation exists or a de facto obligation arises as a result of past business practice. The expense is recognised under personnel expenses. Obligations to be paid in cash are entered under other liabilities. The portion to be compensated with LLB bearer shares is entered in equity. The number of shares for the share-based compensation corresponds to the average share price of the last quarter of the year under report.

2.16 Provisions and contingent liabilities

The business environment in which the LLB Group currently operates exposes it to significant legal and regulatory risks. As a result, LLB is involved in various legal proceedings, whose financial influence on the LLB Group – depending on the stage of the proceeding – is difficult to assess and are subject to many uncertainties. The LLB Group makes provisions for ongoing and threatened proceedings when, in the opinion of management after taking legal advice, it is probable that a liability exists, and the amount of the liability or payment can be reasonably estimated.

For certain proceedings in cases where the facts are not specifically known, the claimant has not quantified the alleged damages, the proceedings are at an early stage, or where sound and substantial information is lacking, the LLB Group is not in a position to estimate reliably the approximate financial implication. In many legal cases, a combination of these facts makes it impossible to estimate the financial effect of contingent liabilities for the LLB Group. If, indeed, such assumptions or estimates were made or disclosed, it could seriously prejudice the position of the LLB Group in such legal cases.

In cases where only a possible liability is involved, but the management does not believe that there is a probability of an outflow of resources, this leads to a contingent liability for the LLB Group, but not to the formation of a provision. The amount of the contingent liabilities results based on best estimate.

2.17 Allowances for credit risks

Allowances for credit risks are made at LLB, provided there are objective criteria indicating that the entire amount owed according to the loan agreement may not be recoverable. At LLB, a credit amount is understood to be a loan, a claim or a fixed commitment such as a documentary credit, a guarantee, or a similar credit product. Objective criteria are serious financial difficulties experienced by the borrower, default or delinquency in interest or capital payments, or the probability that the borrower cannot repay the loan. Allowances for credit risks are reported as a reduction of the carrying value of a claim on the balance sheet. Allowances are reported in the income statement under credit loss (expense) / recovery. For further information, see "Risk management", chapter "3. Credit risk".

2.18 Treasury shares

Shares of Liechtensteinische Landesbank AG held by the LLB Group are valued at cost of acquisition and reported as a reduction in equity. The difference between the sale proceeds and the corresponding cost of acquisition of treasury shares is recorded under capital reserves.

2.19 Securities lending and borrowing transactions

Securities lending and borrowing transactions are generally entered into on a collateralised basis, with securities mainly being advanced or received as collateral.

Treasury shares lent out remain in the trading portfolio or in the financial investments portfolio as long as the risks and rewards of ownership of the shares are not transferred. Securities that are borrowed are not recognised in the balance sheet as long as the risks and rewards of ownership of the securities remain with the lender.

Fees and interest received or paid are recognised on an accrual basis and recorded under net fee and commission income.

3 Events after the balance sheet date

There have been no material events after the balance sheet date, which would require disclosure or an adjustment of the consolidated financial statement for 2016.

Segment reporting

The business activities of the LLB Group are divided into the following three business areas. These form the basis for the segment reporting.

- Retail & Corporate Banking segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- Private Banking segment encompasses all the private banking activities of the LLB Group.
- Institutional Clients segment encompasses the financial intermediary and investment fund business as well as the asset management and wealth structuring activities of the LLB Group

The segments receive comprehensive support from the Corporate Center. It comprises the following functions: finance, credit and risk management, legal and compliance matters, trading and securities administration, payment services, human resources management, communication and branding, 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.

Business year 2015

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	89'246	16'590	8'147	18'471	132'454
Credit loss (expense) / recovery	−57	0	−5'979	0	−6'036
Net interest income after credit loss expense	89'189	16'590	2'168	18'471	126'418
Net fee and commission income	28'124	66'766	56'907	−2'173	149'625
Net trading income	11'157	10'277	11'896	−246	33'084
Net income from financial investments at fair value	0	0	0	−736	−736
Share of net income of joint venture	0	0	0	−13	−13
Other income	543	2	1'584	2'656	4'785
Total operating income*	**129'013**	**93'635**	**72'555**	**17'959**	**313'163**
Personnel expenses	−31'741	−24'209	−15'575	−52'257	−123'782
General and administrative expenses	−2'607	−2'776	−2'985	−55'286	−63'653
Depreciation and amortisation	−321	0	0	−33'336	−33'657
Services (from) / to segments	−51'790	−25'592	−10'133	87'515	0
Total operating expenses	**−86'459**	**−52'577**	**−28'693**	**−53'364**	**−221'093**
Operating profit before tax	**42'554**	**41'058**	**43'862**	**−35'405**	**92'070**
Tax expenses					−5'770
Net profit					**86'301**

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

Business year 2016

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	84'077	15'695	10'300	27'994	138'067
Credit loss (expense) / recovery	−3'014	750	1'275	0	−989
Net interest income after credit loss expense	81'063	16'445	11'575	27'994	137'078
Net fee and commission income	29'467	65'390	55'795	−4'914	145'739
Net trading income	10'532	8'955	10'538	25'917	55'943
Net income from financial investments at fair value	0	0	0	21'836	21'836
Share of net income of joint venture	0	0	0	0	0
Other income	1'813	2	3	9'252	11'070
Total operating income*	**122'875**	**90'792**	**77'911**	**80'085**	**371'665**
Personnel expenses	−31'679	−30'631	−17'041	−61'484	−140'835
General and administrative expenses	−2'364	−3'576	−2'538	−81'380	−89'859
Depreciation and amortisation	−68	0	0	−27'480	−27'548
Services (from) / to segments	−46'989	−24'384	−12'167	83'540	0
Total operating expenses	**−81'100**	**−58'591**	**−31'746**	**−86'804**	**−258'242**
Operating profit before tax	**41'775**	**32'201**	**46'165**	**−6'719**	**113'423**
Tax expenses					−9'554
Net profit					**103'869**

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

There were no revenues deriving from transactions with a single external customer that amounted to ten percent or more of the Group's revenues.

Segment reporting by geographic location

The geographic analysis of operating income and assets is based on the location of the company,in which the transactions and assets are recorded. The LLB Group does not manage the segments or the individual companies according to geographic distribution. The geographic analysis is prepared and disclosed in order to comply with IFRS.

Business year 2015

	Liechtenstein		Switzerland		Other countries		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	152'219	48.6	151'379	48.3	9'565	3.1	**313'163**	**100.0**
Total assets (in CHF millions)	13'188	67.0	6'371	32.4	110	0.6	**19'670**	**100.0**

Business year 2016

	Liechtenstein		Switzerland		Other countries		Total Group	
		in %		in %		in %		in %
Operating income (in CHF thousands)	249'717	67.2	111'845	30.1	10'103	2.7	**371'665**	**100.0**
Total assets (in CHF millions)	13'193	66.1	6'561	32.9	204	1.0	**19'958**	**100.0**

Notes to the consolidated income statement

1 Net interest income

in CHF thousands	2016	2015	+ / − %
Interest income from banks	5'436	6'792	−20.0
Interest income from loans	167'774	172'164	−2.6
Loan commissions with the character of interest	3'762	3'845	−2.2
Total interest income	**176'971**	**182'801**	**−3.2**
Interest expenses on amounts due to banks	−15'223	−16'898	−9.9
Interest expenses on amounts due to customers	−23'681	−33'449	−29.2
Total interest expenses	**−38'905**	**−50'347**	**−22.7**
Total net interest income *	**138'067**	**132'454**	**4.2**

* In the 2016 business year CHF thousands 12'415 (previous year: CHF thousands 6'611) in negative interest were paid and CHF thousands 3'715 (previous year: CHF thousands 305) in negative interest were received.

2 Net fee and commission income

in CHF thousands	2016	2015	+ / − %
Brokerage fees	48'418	51'532	−6.0
Custody fees	30'118	32'187	−6.4
Advisory and management fees	41'601	39'780	4.6
Investment fund fees	23'380	20'651	13.2
Credit-related fees and commissions	625	808	−22.7
Commission income from other services	27'789	29'938	−7.2
Total fee and commission income	**171'930**	**174'897**	**−1.7**
Brokerage fees paid	−9'687	−8'229	17.7
Other fee and commission expenses	−16'504	−17'043	−3.2
Total fee and commission expenses	**−26'191**	**−25'272**	**3.6**
Total net fee and commission income	**145'739**	**149'625**	**−2.6**

3 Net trading income

in CHF thousands	2016	2015	+ / – %
Securities	66	238	–72.2
Foreign exchange trading	39'275	41'832	–6.1
Foreign note trading	1'754	222	688.9
Precious metals trading	782	898	–12.9
Interest rate instruments *	14'066	–10'106	
Total net trading income	**55'943**	**33'084**	**69.1**

* 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	2016	2015	+ / – %
Interest income	14'088	16'826	–16.3
Dividend income	819	1'216	–32.6
Price gains *	5'406	–18'721	
Total net income from financial investments at fair value through profit and loss	**20'313**	**–678**	
Realised gain from financial investments available for sale	1'522	–59	
Total net income from financial investments available for sale	**1'522**	**–59**	
Total net income from financial investments at fair value	**21'836**	**–736**	

* The realised price gains for 2016 amounted to minus CHF thousands 4'419 (previous year: minus CHF thousands 6'909).

5 Other income

in CHF thousands	2016	2015	+ / – %
Net income from properties	1'327	1'688	–21.4
Non-period-related and non-operating income	649	131	394.6
Realised profits from sales of participations *	0	1'584	–100.0
Realised profits from sales of tangible assets **	7'851	56	
Income from various services	1'244	1'326	–6.2
Total other income	**11'070**	**4'785**	**131.4**

* Contains in 2015 income from the deconsolidation of the swisspartners Group.
** Contains income from sales of properties.

6 Personnel expenses

in CHF thousands	2016	2015	+ / – %
Salaries *	– 116'849	– 102'419	14.1
Pension and other post-employment benefit plans **	– 7'436	– 7'662	– 3.0
Other social contributions	– 11'238	– 10'034	12.0
Training costs	– 1'570	– 1'195	31.3
Other personnel expenses	– 3'743	– 2'472	51.4
Total personnel expenses	**– 140'835**	**– 123'782**	**13.8**

* Contains the variable compensation of the management which is disclosed in detail in the compensation report as well as aggregated in note 41.
** See note 40 for details.

The average headcount of LLB Group employees, adjusted to consider part-time staff, amounted to 844 in 2016 and 816 in 2015.

7 General and administrative expenses

in CHF thousands	2016	2015	+ / – %
Occupancy	– 10'516	– 6'985	50.5
Expenses for IT, machinery and other equipment	– 18'380	– 17'320	6.1
Information and communication expenses	– 12'876	– 12'287	4.8
Marketing and public relations	– 8'048	– 7'936	1.4
Consulting and audit fees	– 5'496	– 6'816	– 19.4
Capital tax and other tax	– 505	– 497	1.4
Provisions for legal and litigation risks *	– 24'399	785	
Material costs	– 869	– 845	2.7
Legal and representation costs	– 837	– 612	36.8
Litigation costs	– 106	– 1'883	– 94.4
Supervision fees	– 1'116	– 924	20.7
Other general and administrative expenses	– 6'711	– 8'333	– 19.5
Total general and administrative expenses	**– 89'859**	**– 63'653**	**41.2**

* See note 26 for details.

8 Depreciation and amortisation

in CHF thousands	2016	2015	+ / – %
Depreciation of property	– 5'586	– 6'613	– 15.5
Depreciation of equipment	– 6'902	– 9'328	– 26.0
Amortisation of intangible assets *	– 15'060	– 17'717	– 15.0
Total depreciation and amortisation	**– 27'548**	**– 33'657**	**– 18.2**

* Contains in 2015 a one-time impairment on intangible assets of CHF thousands 3'132.

9 Tax expenses

in CHF thousands	2016	2015	+ / − %
Current taxes	− 11'024	− 4'958	122.3
Deferred taxes *	1'470	− 812	
Total tax expenses	**− 9'554**	**− 5'770**	**65.6**

* For further details, see note 25.

The actual net payments made by the LLB Group for domestic and foreign corporate profit taxes amounted to CHF 7.6 million for the full year 2016 and to CHF 8.7 million for the full year 2015.

The tax on pre-tax Group profit deviates from the theoretical amount, calculated on the basis of the weighted average Group tax rate on profit before tax, as follows:

in CHF thousands	2016	2015	+ / − %
Operating profit before tax	113'423	92'070	23.2
Assumed average income tax rate of 11.5 % (2015: 11.5 %)	**− 13'044**	**− 10'588**	**23.2**
Increase / (Decrease) resulting from			
Use of tax losses carried forward	0	− 134	− 100.0
Use of non-capitalised losses carried forward	405	228	77.6
Effect of taxes calculated at tax rates other than the assumed tax rate	1'891	2'018	− 6.3
Tax charges / (savings) from previous years	953	0	
Other differences	241	2'706	− 91.1
Total tax expenses	**− 9'554**	**− 5'770**	**65.6**

The assumed average tax burden is based on the average applicable tax rates for the individual companies or the individual tax jurisdictions, weighted according to the total contributions of the individual companies.

10 Earnings per share

	2016	2015	+ / − %
Net profit attributable to the shareholders of LLB (in CHF thousands)	98'181	82'728	18.7
Weighted average shares outstanding	28'836'386	28'821'798	0.1
Basic earnings per share (in CHF)	**3.40**	**2.87**	**18.6**
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	98'181	82'728	18.7
Weighted average shares outstanding for diluted earnings per share	28'836'386	28'821'798	0.1
Diluted earnings per share (in CHF)	**3.40**	**2.87**	**18.6**

Notes to the consolidated balance sheet

11 Cash and balances with central banks

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Cash	64'258	60'061	7.0
Demand deposits with central banks	3'386'467	2'499'911	35.5
Total cash and balances with central banks	**3'450'726**	**2'559'972**	**34.8**

12 Due from banks

in CHF thousands	31.12.2016	31.12.2015	+ / – %
On demand	506'401	483'307	4.8
At maturity or callable	2'608'459	3'770'767	– 30.8
Total due from banks	**3'114'861**	**4'254'074**	**– 26.8**

13 Loans

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Mortgages	9'986'137	9'580'127	4.2
Public institutions	82'441	82'975	– 0.6
Fixed advances and loans	1'314'918	1'210'132	8.7
Other loans and advances	262'378	230'204	14.0
Allowances for credit loss	– 106'999	– 111'948	– 4.4
Total due from customers	**11'538'876**	**10'991'490**	**5.0**

By type of collateral

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Secured by properties	9'967'873	9'558'415	4.3
Other collateral	1'076'498	916'506	17.5
Unsecured	494'505	516'569	– 4.3
Total	**11'538'876**	**10'991'490**	**5.0**

Allowances and provisions for credit losses

in CHF thousands	Mortgage loans	Other loans	Total
As at 1 January 2015	31'347	78'341	109'688
Write-offs	–6'138	–1'028	–7'166
Recoveries and doubtful interest income	2'594	725	3'319
Increase in credit loss allowances and provisions recognised in the income statement	6'616	3'675	10'291
Decrease in credit loss allowances and provisions recognised in the income statement	–1'586	–2'669	–4'255
Foreign currency translation and other adjustments	–1'696	1'767	71
As at 31 December 2015	**31'137**	**80'811**	**111'948**
As at 1 January 2016	31'137	80'811	111'948
Write-offs	–383	–7'138	–7'521
Recoveries and doubtful interest income	756	722	1'478
Increase in credit loss allowances and provisions recognised in the income statement	10'322	9'198	19'520
Decrease in credit loss allowances and provisions recognised in the income statement	–10'476	–8'055	–18'531
Foreign currency translation and other adjustments	–1'507	1'612	105
As at 31 December 2016	**29'849**	**77'150**	**106'999**

14 Trading portfolio assets

in CHF thousands	31.12.2016	31.12.2015	+/– %
Debt instruments			
listed	3'610	2'193	64.6
unlisted	162	247	–34.3
Total debt instruments	**3'772**	**2'440**	**54.6**
Equity instruments			
listed	3	4	–28.1
unlisted	5	5	14.0
Total equity instruments	**9**	**9**	**–6.1**
Total trading portfolio assets	**3'781**	**2'450**	**54.4**

15 Derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. These instruments are fair value hedges. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients. Swiss banks having a high credit worthiness act as counterparties. The bank does not assume a market-maker function. Derivative financial instruments are used to a limited extent in the management of the bank's own securities portfolio.

The LLB Group employs fair value hedge accounting for interest rate risks on fixed-rate instruments. For this purpose it uses interest rate swaps. In the 2016 business year, these had a nominal value of CHF 240 million (31.12.2015: CHF 145 million), as well as a positive replacement value of CHF 1.3 million (31.12.2015: CHF 0.4 million) and a negative replacement value of CHF 2.2 million (31.12.2015: CHF 0.5 million). At the same time, the loss on hedging instruments totalled CHF 0.5 million (2015: profit of CHF 0.7 million) and the profits on the hedged underlying transactions amounted to CHF 0.6 million (2015: loss of CHF 0.6 million).

in CHF thousands	Term to maturity within 3 months PRV	Term to maturity within 3 months NRV	Term to maturity 3 to 12 months PRV	Term to maturity 3 to 12 months NRV	Term to maturity 1 to 5 years PRV	Term to maturity 1 to 5 years NRV	Term to maturity after 5 years PRV	Term to maturity after 5 years NRV	Total PRV	Total NRV	Total contract volume
31.12.2015											
Derivative financial instruments in the trading portfolio											
Interest rate contracts											
Swaps	174	0	1'046	2'715	0	43'572	121	47'814	1'341	94'100	1'299'482
Forward contracts	124	315	26	50	0	0	0	0	150	365	80'941
Foreign exchange contracts											
Forward contracts	46'678	43'915	8'297	7'534	339	334	0	0	55'314	51'783	7'918'742
Over the counter (OTC) contracts	1'357	1'357	2'425	2'425	0	0	0	0	3'782	3'782	68'830
Precious metals contracts											
Forward contracts	0	0	17	15	0	0	0	0	17	15	972
Over the counter (OTC) contracts	0	0	0	0	0	0	0	0	0	0	0
Equity / Index contracts											
Over the counter (OTC) contracts	1'017	1'017	0	0	0	0	0	0	1'017	1'017	136'240
Equities											
Forward contracts	0	0	0	0	0	0	0	0	0	0	0
Total derivative financial instruments in the trading portfolio	**49'350**	**46'604**	**11'811**	**12'739**	**339**	**43'906**	**121**	**47'814**	**61'621**	**151'062**	**9'505'207**
Derivative financial instruments for hedging purposes											
Interest rate contracts											
Swaps (fair value hedge)	0	0	0	0	0	115	392	415	392	531	145'000
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**0**	**0**	**115**	**392**	**415**	**392**	**531**	**145'000**
Derivative financial instruments	**49'350**	**46'604**	**11'811**	**12'739**	**339**	**44'021**	**513**	**48'229**	**62'013**	**151'593**	**9'650'207**

PRV: Positive replacement value; NRV: Negative replacement value

in CHF thousands	Term to maturity within 3 months PRV	Term to maturity within 3 months NRV	Term to maturity 3 to 12 months PRV	Term to maturity 3 to 12 months NRV	Term to maturity 1 to 5 years PRV	Term to maturity 1 to 5 years NRV	Term to maturity after 5 years PRV	Term to maturity after 5 years NRV	Total PRV	Total NRV	Total contract volume
31.12.2016											
Derivative financial instruments in the trading portfolio											
Interest rate contracts											
Swaps	0	0	0	3'662	0	38'286	0	36'180	0	78'128	1'121'000
Forward contracts	21	364	8	696	0	0	0	0	30	1'060	72'168
Foreign exchange contracts											
Forward contracts	60'524	60'500	15'834	15'153	325	316	0	0	76'683	75'969	8'566'840
Over the counter (OTC) contracts	402	402	2'613	2'613	0	0	0	0	3'015	3'015	76'204
Precious metals contracts											
Forward contracts	226	251	0	0	0	0	0	0	226	251	18'020
Over the counter (OTC) contracts	0	0	6	6	0	0	0	0	6	6	239
Equity / index contracts											
Over the counter (OTC) contracts	1'316	1'316	0	0	54	54	0	0	1'369	1'369	186'326
Equities											
Forward contracts	0	0	0	0	0	0	0	0	0	0	13'652
Total derivative financial instruments in the trading portfolio	**62'488**	**62'832**	**18'462**	**22'130**	**379**	**38'656**	**0**	**36'180**	**81'329**	**159'798**	**10'054'450**
Derivative financial instruments for hedging purposes											
Interest rate contracts											
Swaps (fair value hedge)	0	0	0	119	0	68	1'279	1'990	1'279	2'178	240'000
Total derivative financial instruments for hedging purposes	**0**	**0**	**0**	**119**	**0**	**68**	**1'279**	**1'990**	**1'279**	**2'178**	**240'000**
Derivative financial instruments	**62'488**	**62'832**	**18'462**	**22'249**	**379**	**38'724**	**1'279**	**38'171**	**82'607**	**161'976**	**10'294'450**

PRV: Positive replacement value; NRV: Negative replacement value

16 Financial investments at fair value

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Financial investments at fair value through profit and loss			
Debt instruments			
listed	854'312	776'407	10.0
unlisted	0	0	
Total debt instruments	**854'312**	**776'407**	**10.0**
Equity instruments			
listed	4	1	219.3
unlisted	293'149	366'028	– 19.9
Total equity instruments	**293'153**	**366'029**	**– 19.9**
Total financial investments at fair value through profit and loss	**1'147'465**	**1'142'436**	**0.4**
Financial investments available for sale			
Debt instruments			
listed	198'745	236'237	– 15.9
unlisted	0	59'935	– 100.0
Total debt instruments	**198'745**	**296'172**	**– 32.9**
Equity instruments			
listed	0	0	
unlisted	92'408	0	
Total equity instruments	**92'408**	**0**	
Total financial investments available for sale	**291'153**	**296'172**	**– 1.7**
Total financial investments at fair value	**1'438'618**	**1'438'608**	**0.0**

17 Investment in joint venture

in CHF thousands	2016	2015	+ / – %
As at 1 January	47	61	– 22.0
Additions / (Disposals)	0	0	
Share in profit / (loss)	0	– 13	– 97.3
As at 31 December	**47**	**47**	**– 0.8**

Details of investment in joint venture

Name	Registered office	Business activity	Ownership interest in % 2016	Ownership interest in % 2015
Data Info Services AG	Vaduz	Service company	50.0	50.0

in CHF thousands	2016	2015
Assets	868	940
Liabilities	773	819
Operating profit	740	764
Net profit	– 1	– 27

Investments in joint ventures are recognised in the balance sheet according to the equity method and are not substantial for the LLB Group. Losses are fully recognised in the balance sheet.

18 Property and other equipment as well as investment property

in CHF thousands	Property	Other equipment	Total property and other equipment	Investment property
As at 1 January 2015				
Cost	222'879	98'573	321'452	21'346
Accumulated depreciation	−115'818	−74'084	−189'902	−4'961
Net book amount	**107'061**	**24'489**	**131'550**	**16'385**
Year ended December 2015				
Opening net book amount	107'061	24'489	131'550	16'385
Additions	401	8'128	8'529	1'240
Disposals	−116	−97	−213	−1'385
Amortisation	−6'613	−9'328	−15'941	0
Disposals / (Additions) from accumulated depreciation	44	9'684	9'728	0
Change from disposals to the scope of consolidation	0	−10'332	−10'332	0
Closing net book amount	**100'778**	**22'544**	**123'321**	**16'240**
As at 31 December 2015				
Cost	223'164	96'272	319'436	21'201
Accumulated depreciation	−122'386	−73'728	−196'115	−4'961
Net book amount	**100'778**	**22'544**	**123'321**	**16'240**
Year ended December 2016				
Opening net book amount	100'778	22'544	123'321	16'240
Additions	13'490	19'084	32'573	0
Disposals	−16'967	−40'534	−57'501	−2'833
Depreciation	−5'586	−6'902	−12'488	0
Disposals / (Additions) from accumulated depreciation	8'068	30'996	39'063	2'611
Closing net book amount	**99'781**	**25'187**	**124'969**	**16'018**
As at 31 December 2016				
Cost	219'686	74'822	294'508	18'368
Accumulated depreciation	−119'905	−49'635	−169'540	−2'350
Net book amount	**99'781**	**25'187**	**124'969**	**16'018**

Additional information

in CHF thousands	31.12.2016	31.12.2015	+ / − %
Fire insurance value of property	249'338	251'397	− 0.8
Fire insurance value of other equipment	66'211	68'890	− 3.9
Fire insurance value of investment property	1'935	1'190	62.6
Fair value of investment property	16'018	16'240	− 1.4

There are no financing leases for premises or equipment. The investment property is held solely for the purpose of capital appreciation.

Future net commitments for operating leases

in CHF thousands	31.12.2016	31.12.2015	+ / − %
Due to 2017	3'101	3'505	− 11.5
Due 2018 to 2022	6'657	10'855	− 38.7
Due 2023 and thereafter	1'647	3'708	− 55.6
Total future net commitments for operating leases	**11'405**	**18'068**	**− 36.9**

Operating expenses for 2016 include CHF thousands 4'054 and for 2015 CHF thousands 3'598 from operating leases. At year's end, LLB Group was obligated under a number of non-cancellable operating leases for premises and equipment used mainly for banking purposes. The significant premises leases include renewal options and escalation clauses.

Future net receivables from operating leases

in CHF thousands	31.12.2016	31.12.2015	+ / − %
Due to 2017	1'451	1'598	− 9.2
Due 2018 to 2022	4'512	4'280	5.4
Due 2023 and thereafter	3'673	4'406	− 16.6
Total future net receivables from operating leases	**9'636**	**10'284**	**− 6.3**

Other income for 2016 includes CHF thousands 1'705 and for 2015 CHF thousands 1'804 from operating leases.

19 Goodwill and other intangible assets

in CHF thousands	Goodwill	Other intangible assets	Software	Total
As at 1 January 2015				
Cost	132'517	76'130	120'000	328'647
Accumulated amortisation and impairment	−76'897	−35'376	−62'650	−174'923
Net book amount	**55'620**	**40'754**	**57'350**	**153'724**
Year ended December 2015				
Opening net book amount	55'620	40'754	57'350	153'724
Additions	0	0	3'074	3'074
Disposals	0	0	0	0
Amortisation	0	−3'718	−13'999	−17'717
Disposals / (Additions) from accumulated depreciation	76'897	6'252	13'197	96'346
Change from disposals to the scope of consolidation	−76'897	−20'367	−13'671	−110'935
Closing net book amount	**55'620**	**22'921**	**45'951**	**124'492**
As at 31 December 2015				
Cost	55'620	55'763	109'403	220'786
Accumulated amortisation	0	−32'842	−63'452	−96'294
Net book amount	**55'620**	**22'921**	**45'951**	**124'492**
Year ended December 2016				
Opening net book amount	55'620	22'921	45'951	124'492
Additions	0	0	8'999	8'999
Disposals	0	0	−39'062	−39'062
Amortisation	0	−3'718	−11'342	−15'060
Disposals / (Additions) from accumulated amortisation	0	0	39'063	39'063
Closing net book amount	**55'620**	**19'203**	**43'609**	**118'432**
As at 31 December 2016				
Cost	55'620	55'763	79'340	190'723
Accumulated amortisation	0	−36'560	−35'730	−72'290
Net book amount	**55'620**	**19'203**	**43'609**	**118'432**

Goodwill

The LLB Group carried goodwill for the following segment:

in CHF thousands	31.12.2016	31.12.2015
Retail & Corporate Banking	55'620	55'620

Goodwill impairment testing

Goodwill is tested twice a year for impairment – in the first quarter as a basis for the interim financial reporting at 30 June and in the third quarter as a basis for the annual financial reporting at 31 December. In order to determine a possible impairment, the recoverable amount of each cash generating unit which carries goodwill is compared with its balance sheet value. According to the calculations made, the recoverable amount of a cash generating unit always corresponds to the value in use. The balance sheet value or carrying value comprises equity before goodwill and intangible assets, as well as goodwill and intangible assets from the underlying purchase price allocation of this cash generating unit.

On the basis of the impairment testing carried out, management reached the conclusion that for the year ended on 31 December 2016, the total goodwill of CHF 55.6 million allocated to the cash generating unit Retail & Corporate Banking remains recoverable. No impairment needs to be recognised because the recoverable amount exceeds the balance sheet value.

Recoverable amount

For determining the value in use, which corresponds to the recoverable amount of the respective cash generating units, the LLB Group employs a discounted cash flow (DCF) valuation model. The DCF model used by the LLB Group takes into consideration the special characteristics of banking business and the financial services sector, as well as the regulatory environment. With the aid of the model, and on the basis of the financial planning approved by management, the cash value of estimated free cash flow is calculated. If regulatory capital requirements exist for the cash generating unit, these capital requirements are deducted from the estimated free cash flows for the respective period and are available to the cash generating unit for distribution. This amount then corresponds to the theoretical sum that could be paid out to the shareholders. For the assessment of the forecasted earnings, management employs approved financial plans covering a period of five years. The results of all periods after the fifth year are extrapolated from the forecasted result or the free cash flow of the fifth year together with a long-term growth rate corresponding to the long-term inflation rate in Switzerland and Liechtenstein. Under certain circumstances, the growth rates may vary for the individual cash generating units because the probable developments and conditions in the respective markets are taken into account.

Assumptions

As far as possible, the parameters on which the valuation model is based are coordinated with external market information. In this context, the value in use of a cash generating unit is most sensitive to changes in the forecasted earnings, changes to the discount rate and changes in the long-term growth rate. The discount rate is determined on the basis of the capital asset pricing model (CAPM), which contains a risk-free interest rate, a market risk premium, a small cap premium, as well as a factor for the systematic market risk, i.e. the beta factor.

The long-term growth rates outside the five-year planning period (terminal value), on which the impairment tests for the annual report per 31 December 2016 were based and which were used for extrapolation purposes, as well as the discount rates for the individual cash generating units, were unchanged from the parameters used at 31 December 2015. The parameters used are shown in the table below. The discount rate is directly influenced by the fluctuation of interest rates. On account of the unchanged, historically low interest rate levels on the market, the discount rate of the cash generating units has not changed in comparison with the previous year. In a longer-term comparison, the present interest rate environment is also reflected in substantially lower interest income as well as corresponding lower annual earnings and free cash flows distributable to shareholders. On account of the fact that the discount rate is linked to current interest rate levels, when the latter rise, basically the discount rate, and interest income, will also rise. The cash generating units are exposed to only a limited level of risk because they operate in a local market, and only in retail and private banking with a limited risk profile.

Sensitivities

During the periodic preparation and execution of impairment tests, all the parameters and assumptions, on which the testing of the individual cash generating units is based, are reviewed and – if necessary – adjusted. A change in the risk-free interest rate has an influence on the discount rate, whereby a change in the economic situation, especially in the financial services industry, also has an impact on the expected or estimated results. In order to check these effects on the value in use of the individual cash generating units, the parameters and assumptions employed with the valuation model are subjected to a sensitivity analysis. For this purpose, the forecasted free cash flow attributable to shareholders is changed by 10 percent, the discount rate by 10 percent and the long-term growth rates by 10 percent. According to the results of the impairment tests carried out, and based on the described assumptions, an amount of CHF 40.0 million in

	Growth rates		Discount rates	
in percent	2016	2015	2016	2015
Retail & Corporate Banking	1.0	1.0	6.0	6.0

excess of the balance sheet value is obtained for the Retail & Corporate Banking segment. A reduction of the free cash flow of 10 percent would lead to an impairment of CHF 9.5 million in the goodwill of the Retail & Corporate Banking segment and an increase in the discount rate by 10 percent would lead to an impairment of CHF 18.5 million. A reduction in the long-term growth rate of 10 percent would not lead to any impairment. The discount rate could be increased by 6.5 percent and the free cash flow could be reduced by 8.0 percent before the recoverable amount would correspond to the book value.

In view of the challenging situation in the financial services industry, which is expected to persist in the future, the management estimates that an impairment of the goodwill in the Retail & Corporate Banking segment in the coming business years is not improbable. However, thanks to the relative strength in comparison with competitors as well as the realised and planned cost-cutting and efficiency improvement measures, a positive development of the segment is expected over the medium to long-term.

If the estimated earnings and other assumptions in future business years deviate from the current outlook due to political or global risks in the banking industry – such as for example due to uncertainty in connection with the implementation of regulatory provisions and the introduction of certain legislation, or a decline in general economic performance – this could result in an impairment of the goodwill in the future. This would lead to a reduction in the income statement of the LLB Group and a decrease in the equity attributable to shareholders and net profit. Such an impairment would not, however, have an impact on cash flows or on the Tier 1 ratio because – in accordance with Liechtenstein equity capital ordinance – goodwill must be deducted from capital.

Other intangible assets

Customer relationships and brand values are reported as assets under other intangible assets. These are amortised over a period of 15 years on a straight-line basis. Estimated aggregated amortisation on intangible assets amounts to:

in CHF thousands	
2017	3'718
2018	3'718
2019	3'718
2020	3'718
2021	3'718
2022 and thereafter	613
Total	**19'203**

20 Other assets

in CHF thousands	31.12.2016	31.12.2015	+/– %
Settlement account	2'388	2'664	–10.4
VAT and other tax receivables	1'033	2'344	–55.9
Precious metals holdings	12'346	22'812	–45.9
Total other assets	**15'767**	**27'820**	**–43.3**

21 Assets pledged

	31.12.2016		31.12.2015	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Financial investments	40'091	0	33'979	0
Mortgage loans	999'269	788'200	1'000'306	770'000
Total assets pledged	**1'039'360**	**788'200**	**1'034'285**	**770'000**

The financial investments are pledged with national and central banks for Lombard limits, for stock exchange guarantees and to safeguard the business activity of foreign organisations pursuant to local legal provisions. The amounts due from banks and mortgage loans are pledged as collateral for loans and shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions.

22 Due to banks

in CHF thousands	31.12.2016	31.12.2015	+ / − %
On demand	109'723	155'569	−29.5
At maturity or callable	513'209	518'065	−0.9
Total due to banks	**622'932**	**673'634**	**−7.5**

23 Due to customers

in CHF thousands	31.12.2016	31.12.2015	+ / − %
On demand	10'246'998	10'731'951	−4.5
At maturity or callable	1'286'388	624'513	106.0
Savings accounts	4'327'079	4'270'586	1.3
Total due to customers	**15'860'465**	**15'627'049**	**1.5**

24 Debt issued

in CHF thousands	31.12.2016	31.12.2015	+/−%
Medium-term notes *	437'200	443'244	−1.4
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	790'836	770'000	2.7
Total debt issued	**1'228'035**	**1'213'244**	**1.2**

* The average interest rate per 31 December 2016 was 0.60 percent and per 31 December 2015 0.73 percent.

25 Deferred taxes

in CHF thousands	As at 1 January	Amount recognised in the income statement	Amount recognised in other comprehensive income	Change from additions and disposals to the scope of consolidation	As at 31 December
Deferred tax assets					
2015					
Loss carry forwards	1'390	–134	0	0	1'256
Property and equipment	4'081	0	0	0	4'081
Liability for pension plan	14'722	–778	1'519	–2'001	13'463
Derivatives	5'529	–211	0	–449	4'869
Total	**25'722**	**–1'123**	**1'519**	**–2'450**	**23'669**
Offsetting					0
Total, after offsetting					**23'669**
2016					
Loss carry forwards	1'256	29	145	0	1'430
Property and equipment	4'081	–533	0	0	3'548
Liability for pension plan	13'463	860	1'935	0	16'258
Intangible assets	0	126	0	0	126
Derivatives	4'869	2'091	0	0	6'960
Total	**23'669**	**2'573**	**2'080**	**0**	**28'322**
Offsetting					–9'513
Total, after offsetting					**18'809**
Deferred tax liabilities					
2015					
Credit loss (expense) / recovery	17	0	0	0	17
Intangible assets	7'582	–744	0	–2'258	4'580
Property	949	0	0	0	949
Financial instruments	8'790	499	0	0	9'289
Provisions	7'691	–361	0	–548	6'782
Total	**25'029**	**–606**	**0**	**–2'806**	**21'617**
Offsetting					0
Total, after offsetting					**21'617**
2016					
Credit loss (expense) / recovery	17	–17	0	0	0
Intangible assets	4'580	–739	0	0	3'841
Property	949	–949	24	0	24
Financial instruments	9'289	–2'649	514	0	7'154
Provisions	6'782	5'458	0	0	12'240
Total	**21'617**	**1'103**	**538**	**0**	**23'258**
Offsetting					–9'513
Total, after offsetting					**13'745**

At 31 December 2016, there existed temporary differences of CHF thousands 3'406 which were not booked as deferred taxes and which in future could be offset with potential tax allowances (previous year: CHF thousands 4'202).

The tax losses which were not recognised as deferred tax assets per 31 December 2016 expire as follows:

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Within 1 year	0	0	
Within 2 to 5 years	0	0	
Within 6 to 7 years	0	0	
No expiry	3'406	4'202	– 18.9
Total	**3'406**	**4'202**	**– 18.9**

In general, tax losses in Switzerland can be carried forward for seven years; in the Principality of Liechtenstein and Austria, they can be carried forward for an unlimited period.

26 Provisions and contingent liabilities

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2016	Total 2015
As at 1 January	24'036	1'318	25'354	33'330
Reclassification	– 1'760	1'760	0	0
Provisions applied	– 93	– 254	– 347	– 4'555
Increase in provisions recognised in the income statement	26'570	2'359	28'929	2'216
Release of provisions recognised in the income statement	– 1'796	– 1'069	– 2'865	– 783
Change from disposals to the scope of consolidation	0	0	0	– 4'854
As at 31 December	**46'957**	**4'114**	**51'071**	**25'354**

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Short-term provisions	51'071	8'354	511.3
Long-term provisions	0	17'000	– 100.0
Total	**51'071**	**25'354**	**101.4**

The provisions for restructuring relate to the StepUp2020 strategy announced in October 2015. As per 31 December 2016, provisions amounting to CHF 0.8 million for restructuring, covering estimated rebuilding and restoration costs and expenses for social plans were allocated. No further significant provisions or restructuring costs are to be expected in connection with the announced strategies.

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 per 31 December 2016, the LLB Group was involved in various litigation and proceedings, which could have an impact on its financial reporting. The LLB Group endeavours to disclose the claims for damages, the scope of legal proceedings and other relevant information in order for the reader to be able to estimate the possible risk for the LLB Group.

LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks which must achieve an individual solution with the US authorities to resolve the US taxation dispute. LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., with its register- ed office in Zurich-Erlenbach, is responsible for the proceedings. LLB (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Federal Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG is cooperating closely with the US authorities and is working with them to achieve a final settlement of the issue, while complying with the prevailing legal regulations. As per 31 December 2012, in cooperation with our lawyers, on the basis of talks with the US authorities, and taking into consideration differing probabilities, various scenarios were discussed in relation to a possible outflow of resources. On the basis of these discussions, the management reached the conclusion that it is not unlikely that an outflow of resources will occur. Therefore, based on the simulated scenarios and a legal analysis as per 31 December 2012, a provision was set aside for a possible outflow of resources in connection with the investigation being carried out by the US authorities and the resulting possible payment or settlement to the latter. In the opinion of the management, the legal risk of an outflow of resources in connection with the possibility that LLB Verwaltung (Switzerland) AG may not have complied with US law, especially US tax law, was still not unlikely as per 31 December 2016. Based on the calculation criteria applied in the non-prosecution agreement between LLB AG, Vaduz, and the US authorities, as well as the latest information and payments made by other banks, a provision was recorded in the balance sheet by LLB Verwaltung (Switzerland) AG as per 31 December 2016. The management believes the provision set aside per 31 December 2016 is sufficient.

At the start of 2015, LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., received two legal claims in connection with an investment project. Several persons, who have no connection with LLB Verwaltung (Switzerland) AG, had endeavoured to persuade an investor to invest a sum in an investment project. The investment project did not exist and the persons acting fraudulently were able to embezzle a part of the investment sum. The claimants have lodged claims against LLB Verwaltung (Switzerland) AG for the payment of damages in respect of a part of the embezzled amount plus interest. LLB Verwaltung (Switzerland) AG denies that the actions of a former employee of LLB Verwaltung (Switzerland) AG led to the loss. Based on the facts of the case and and the opinion of the attorneys, the management of LLB Verwaltung (Switzerland) AG currently believes that it can successfully defend itself against both claims. LLB Verwaltung (Switzerland) AG has received an undertaking from the insurance company with respect to the costs incurred.

The German tax authorities are currently investigating a large number of banks in various countries with respect to the suspicion of aiding and abetting tax evasion. The Liechtensteinische Landesbank AG is also subject to these investigations. With a view to clearing up the adverse legacy of previous years, the Liechtensteinische Landesbank AG intends to reach an amicable solution. As is the case with other banks, the Liechtensteinische Landesbank AG is currently holding discussions with the German authorities to establish clarity and legal certainty. Taking into consideration the current level of knowledge, the Liechtensteinische Landesbank AG set aside a corresponding provision as per 31 December 2016. Management considers the amount of the allocated provision to be sufficient.

The LLB Group had no contingent liabilities, either per 31 December 2016 or per 31 December 2015.

27 Other liabilities

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Outstanding medium-term notes	124	165	– 24.9
Charge accounts	6'491	17'369	– 62.6
Accounts payable	26'089	19'177	36.0
Clearing accounts	21'461	14'709	45.9
Pension liabilities	116'608	106'664	9.3
Liabilities for outstanding holidays / flexi-time	2'217	2'047	8.3
Liabilities from other long-term benefits	3'914	4'092	– 4.3
Total other liabilities	**176'905**	**164'224**	**7.7**

28 Share capital

	31.12.2016	31.12.2015	+ / – %
Number of bearer shares (authorised and fully paid up)	30'800'000	30'800'000	0.0
Nominal value per bearer share (in CHF)	5	5	0.0
Total nominal value (in CHF thousands)	**154'000**	**154'000**	**0.0**

29 Share premium

in CHF thousands	2016	2015	+ / – %
As at 1 January	25'785	25'785	0.0
Net movements in treasury shares	– 818	0	
As at 31 December	**24'968**	**25'785**	**– 3.2**

30 Treasury shares

	Quantity	in CHF thousands
As at 1 January 2015	1'978'202	168'584
Purchases	0	0
Disposals	0	0
As at 31 December 2015	**1'978'202**	**168'584**
Purchases	0	0
Disposals	– 18'964	– 1'539
As at 31 December 2016	**1'959'238**	**167'045**

31 Retained earnings

in CHF thousands	2016	2015	+ / – %
As at 1 January	1'709'205	1'671'273	2.3
Net profit attributable to the shareholders of LLB	98'181	82'728	18.7
Dividends of LLB	– 46'145	– 43'233	6.7
Increase / (Reduction) in non-controlling interests	– 2'426	– 227	970.4
Other changes	0	– 1'336	– 100.0
As at 31 December	**1'758'816**	**1'709'205**	**2.9**

32 Other reserves

in CHF thousands	2016	2015	+ / – %
As at 1 January	– 63'849	– 44'108	
Foreign currency translation	– 419	– 2'280	– 81.6
Actuarial gains / (losses) of pension plans	– 13'821	– 18'383	– 24.8
Value changes to financial investments available for sale	3'516	922	281.4
Increase / (Reduction) in non-controlling interests	62	0	
As at 31 December	**– 74'511**	**– 63'849**	**16.7**

33 Non-controlling interests

in CHF thousands	2016	2015	+/–%
As at 1 January, restated	102'787	101'521	
Non-controlling interests in net profit	5'688	3'573	59.2
(Dividend) / Reduction of nominal value in non-controlling interests	– 1'623	– 1'609	0.9
Increase / (Reduction) in non-controlling interests	3'269	1'124	190.8
Actuarial gains / (losses) of pension plans	– 22	– 1'822	– 98.8
Value changes to financial investments available for sale	47	0	
As at 31 December	**110'146**	**102'787**	**7.2**

34 Fair value measurement

Measurement guidelines

The fair value represents a market-based measurement and not an entity-specific valuation. It is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date on the principal market or the most advantageous market.

As far as possible, the fair value is determined on the basis of the quoted market prices in active markets accessible to the company on the measurement date. An active, accessible market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value is determined using significant and observable inputs. These are basically available in the case of quoted assets or liabilities. If a market for financial or non-financial assets or liabilities is inactive, or if no observable inputs, or insufficient observable inputs, are available, the LLB Group must employ techniques or processes (valuation methods or models) to determine the fair value. The valuation techniques contain assumptions, including estimates, to enable an exit price on the measurement date from the perspective of the market participant to be determined. However, such assumptions and estimates contain uncertainties, which at a later date can lead to substantial changes in the fair value of financial and non-financial assets and liabilities. In the case of financial and non-financial assets and liabilities, for which a valuation technique involving non-observable market data is used to determine the fair value, these are measured at the transaction price. This fair value can differ from the fair value determined on the basis of valuation techniques.

All financial and non-financial assets and liabilities measured at fair value are categorised into one of the following three fair value hierarchies:

Level 1

The fair value of listed securities and derivatives contained in the trading portfolio and financial investments is determined on the basis of market price quotes on an active market.

Level 2

If no market price quotes are available, the fair value is determined by means of valuation methods or models, which are based on assumptions made on the basis of observable market prices and other market quotes.

Level 3

For the remaining financial instruments neither market price quotes nor valuation methods or models based on market prices are available. Our own valuation methods or models are employed to measure the fair value of these instruments.

Valuation methods

Valuation methods and techniques are employed to determine the fair value of financial and non-financial assets and liabilities for which no observable market prices on an active market are available. These include, in particular, illiquid financial investments. If available, the LLB Group uses market-based assumptions and inputs as the basis for valuation techniques. If such information is not available, assumptions and inputs from comparable assets and liabilities are employed. In the case of complex and very illiquid financial and non-financial assets and liabilities, the fair value is determined using a combination of observable transaction prices and market information.

The LLB Group employs standardised and accepted valuation techniques to determine the fair value of financial and non-financial assets and liabilities which are not actively traded or listed. In general, the LLB Group uses the following valuation methods and techniques as well as the following inputs.

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Own investment funds	Market to model	Market prices of underlying assets	
Derivative financial instruments	Option model	Underlying assets of future contracts	
Level 3			
Financial investments at fair value through profit and loss	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of fair value hierarchies of financial and non-financial assets and liabilities of the LLB Group. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As per 31 December 2016, 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 2016 business year there were no significant transfers between Level 1 and Level 2 financial instruments.

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Level 1			
Trading portfolio assets	3'613	2'198	64.4
Financial investments at fair value through profit and loss	831'390	776'408	7.1
Financial investments available for sale	198'745	236'237	–15.9
Total Level 1	**1'033'749**	**1'014'843**	**1.9**
Level 2			
Trading portfolio assets	168	252	–33.3
Derivative financial instruments	82'607	62'013	33.2
of which for hedging purpose	1'279	392	226.4
Financial investments at fair value through profit and loss	293'149	366'028	–19.9
Financial investments available for sale	92'408	59'935	54.2
Total Level 2	**468'332**	**488'228**	**–4.1**
Level 3			
Financial investments at fair value through profit and loss	22'926	0	
Investment property	16'018	16'240	–1.4
Total Level 3	**38'944**	**16'240**	**139.8**
Total assets	**1'541'024**	**1'519'311**	**1.4**
Level 1			
Total Level 1	**0**	**0**	
Level 2			
Derivative financial instruments	161'976	151'593	6.8
of which for hedging purpose	2'178	531	310.5
Total Level 2	**161'976**	**151'593**	**6.8**
Level 3			
Total Level 3	**0**	**0**	
Total liabilities	**161'976**	**151'593**	**6.8**

Measurement of assets and liabilities, classified as Level 3

For the recurring measurement of the fair value of financial investments for which significant, non-observable inputs have been used and which are classified as Level 3, the effects on the income statement in the 2016 business year amounted to CHF 12.2 million. On account of the new assessment of the fair value of financial investments in 2016, there was a reallocation to Level 3. Both at 31 December 2015 and at 31 December 2016, the holdings of financial investments at the LLB Group were unchanged. For the recurring measurement of the fair value of investment property, for which significant, non-observable inputs have been used and which are classified as Level 3, the effects on the income statement in the 2016 business year are immaterial and therefore they are not shown. The measurement or valuation also had no influence on other comprehensive income in 2016.

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 on fair value.

Financial investments at fair value through profit and loss

Financial investments are periodically valued through profit and loss on the basis of market values provided by external experts. The financial investments consist of the non-listed shares of companies, which are periodically revalued on the basis of current company data or by third parties with the aid of valuation models. The valuation is made available to shareholders. An own valuation by shareholders with the aid of a valuation model based on observable or significant non-observable inputs is therefore unnecessary. How changes would affect the fair value, or how sensitively this would react, cannot be quantified or would have to be based on various assumptions to be made by LLB on how the company will develop. Since these are investments having an infrastructure character, whereby basically the fair value has changed in the last few years only by the amount of profit attained, a sensitivity analysis would bring no additional benefit for the reader of the financial statement. The financial investments do not diverge to highest or best use.

Investment property

Investment property is periodically valued by external experts or is valued on the basis of relative values in a market comparison. If no corresponding values for comparable properties are available, on which to base a reliable calculation of the fair value, assumptions are made. These assumptions contain assessments and considerations of such circumstances as the location and condition of the property, as well as the expected costs and revenues with it. Properties are always revalued whenever on the basis of events or changed circumstances the fair value no longer reflects the market price, so that changes in the calculation of the fair value can be promptly determined and recognised in the accounts. Changes in the inputs, on which the measurement of the fair value is based, can lead to significant changes in it. It cannot be quantified to what extent changes influence the fair value and the sensitivity of fair value, because the valuation of a property is based on an individual measurement, which is influenced by various assumptions. Consequently, a significant change in the fair value can occur, which is not quantifiable. Investment properties do not diverge to highest and best use.

35 Non-current assets held for sale

Properties, which are fully owned by a Group company, are to be sold. The transfers of ownership will take place in the first quarter of 2017. One property consists of a single-family home, another property contains rental apartments and a business branch. The business branch will continue to be used on a leased agreement basis. It is assumed that the sale of the properties, which had a carrying value of CHF 0.8 million per 31 December 2016, will achieve a profit of around CHF 0.1 million.

Notes to the consolidated off-balance sheet transactions

36 Contingent liabilities and assets

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Collateral guarantees and similar instruments	20'984	22'161	–5.3
Performance guarantees and similar instruments	41'855	37'945	10.3
Total contingent liabilities	**62'839**	**60'106**	**4.5**

37 Credit risks

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Irrevocable commitments	254'805	275'134	–7.4
Pay-in and pay-up obligations	9'104	8'964	1.6
Total credit risks	**263'909**	**284'097**	**–7.1**

38 Fiduciary transactions

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Fiduciary deposits with other banks	221'961	100'567	120.7
Fiduciary loans	403'604	482'947	–16.4
Other fiduciary financial transactions	404'810	490'026	–17.4
Total fiduciary transactions	**1'030'375**	**1'073'540**	**–4.0**

39 Lending and pension transactions with securities

LLB has own securities which have been lent or pledged by LLB. These are recognised in LLB's balance sheet and recorded in the table below. Furthermore, securities owned by third parties, which LLB received as collateral and in some cases has repledged or resold are reported in the table. These are not recognised in LLB's balance sheet.

	31.12.2016		31.12.2015	
in CHF thousands	Carrying value	Actual liability	Carrying value	Actual liability
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with reverse repurchase agreements	33'391	33'391	9'699	9'699
of which capable of being resold or further pledged without restrictions	33'391	33'391	9'699	9'699
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	0	622'876	0	1'143'165
of which resold or further pledged securities	0	42'707	0	18'772

Pension plans and other long-term benefits

40 Pension plans

Post-employment benefits

The LLB Group has established a number of pension plans in compliance with prevailing legal provisions, which insure most employees in the event of death, invalidity and retirement. In addition, further plans exist for long-service anniversaries, which qualify as other long-term employee benefits. In the case of the pension plans, contributions are made by employees, which are then supplemented by corresponding contributions from the LLB Group. The pension schemes are financed in compliance with the local legal and fiscal regulations. The risk benefits are based on the insured salary and the pension benefits on the accumulated capital. The assets of the funded pension plans are held within separate foundations or insurances and may not revert to the employer. The mortality rates specified in the Professional Pensions Law 2015 (BVG 2015) were employed to calculate the mortality, life expectancy and invalidity rates for all pension plans. The last actuarial valuations were performed on 31 December 2016 and 31 December 2015. The actuarial gains and losses are included in other comprehensive income. Joint committees are set up for pension plans, which are administered via collective foundations.

The foundation board of the autonomous pension foundation is also composed of an equal number of employee and employer representatives. On the basis of the legal provisions and the pension plan regulations, the foundation board is obligated to act solely in the interest of the foundation and the actively insured persons and pensioners. Consequently, in this pension plan the employer itself may not decide on benefits and their financing, rather decisions must be taken on equal terms.

The foundation board is responsible for determining the investment strategy, for amendments to the pension plan regulations, and especially for the financing of the pension plan benefits. The foundation board members of the pension plans specify investment guidelines for the investment of the pension plan assets, which contain the tactical asset allocation and the benchmarks for the comparison of performance with a general investment universe. The assets of the pension plans are well diversified. With regard to diversification and security, the legal provisions of the BPVG Pension Law apply to pension plans in Liechtenstein, and the legal provisions of the BVG Pension Law apply to pension plans in Switzerland. The foundation board members continually monitor whether the selected investment strategy is suitable for the provision of the pension plan benefits and whether the risk budget corresponds to the demographic structure. The observance of the investment guidelines and the investment performance of the investment advisers are reviewed on a quarterly basis. In addition, the investment strategy and its suitability and effectiveness are periodically checked by an external consultant.

The pension plan is designed as a defined contribution plan, i.e. a savings account is maintained for all the retirement benefits of each employee. The annual savings contributions and interest (no negative interest is possible) are credited to the pension savings account annually. At the time of retirement, the insured person may choose between a life-long pension, which includes a reversional spouse pension, or the withdrawal of the savings capital. In addition to the retirement benefits, the pension plan also includes invalidity and partner pensions. These are calculated on the basis of the insured annual salary (defined benefit plan). Furthermore, the insured employee may purchase improvements to his pension plan up to a maximum sum specified in the regulations. If the employee leaves the company, the savings credit balance is transferred to the new employer's pension plan or to a blocked pension savings account. When determining the benefits, the minimum provisions of the Professional Pension Plans Law (BPVG) and its implementing ordinance are to be observed. The minimum salary to be insured and the minimum pension savings balance sum are stipulated in the BPVG. On account of the pension plan structure and the legal provisions of the BPVG, the employer is subject to actuarial risks. The most important of these are investment risk, interest rate risk and longevity risk. The risks of death and invalidity have been congruently re-insured since. Currently, the individually accumulated pension capital is converted into a life-long pension at age 64 with a pension conversion rate of 5.60 percent. This conversion rate is reduced annually and will amount to 5.10 percent from 1 January 2022. Amendments to the contribution payments made by the bank, the associate companies, or the employees – in accordance with the regulations – require the approval of the bank, the associate companies and a majority of all employees. The employer must bear at least half of the contributions. In the event of underfunding, financial recovery contributions may be charged to both the employer and the employee to eliminate the shortfall in coverage.

One-time effects influencing pension plans and other long-term benefits

The Pension Fund Foundation of LLB AG reduced the conversion rate for the calculation of the life-long pension. In the 2016 business year this led to a one-time reduction in the benefit expenses for defined benefit plans of CHF 10.2 million.

The following amounts were recognised in the income statement and equity as pension costs:

Benefit expenses

	Pensions plans		Other long-term benefits	
in CHF thousands	2016	2015	2016	2015
Defined benefit costs				
Service cost				
Current service cost	−16'090	−16'561	−452	−420
Past service cost including effects of curtailment	10'202	7'938	0	247
Gain / (Losses) from non-routine settlements	0	2'825	0	0
Total service cost	**−5'888**	**−5'798**	**−452**	**−173**
Net interest				
Interest cost on defined benefit obligation	−3'981	−5'655	−33	0
Interest income on plan assets	3'245	4'683	0	0
Total net interest	**−736**	**−972**	**−33**	**0**
Administration expense	−600	−677	0	0
Net actuarial (losses) / gains recognised	0	0	125	−278
Total defined benefit cost	**−7'224**	**−7'447**	**−360**	**−451**
of which personal expense	−7'224	−7'447	−360	−451
of which financial expense	0	0	0	0
Contributions to defined contribution plans	**−212**	**−215**	**0**	**0**
Remeasurement of the defined benefit liability				
Actuarial (gains) / losses				
Arising from changes in demographic assumptions	2'897	0		
Arising from changes in economic assumptions	−11'331	−22'640		
Arising from experience	−13'817	4'426		
Return on plan assets (excl. amounts in interest income)	6'473	−3'510		
Total defined benefit cost recognised in other comprehensive income	**−15'778**	**−21'724**		
Total benefit cost	**−23'214**	**−29'386**	**−360**	**−451**

Development of plan obligations

	Pensions plans		Other long-term benefits	
in CHF thousands	2016	2015	2016	2015
As at 1 January	483'502	522'886	4'092	4'134
Current service cost	16'090	16'561	452	420
Plan participation contributions	6'910	6'580	0	0
Interest costs	3'981	5'655	33	53
Benefits paid through pension assets	−6'026	−15'929	0	0
Benefits paid by employer	−2	−1	−536	−479
Actuarial (gains) / losses	22'251	18'214	−125	278
Plan amendments	−10'202	−7'938	0	13
Liabilities extinguished on business divestiture	0	−62'526	0	−313
Exchange rate differences	0	0	−2	0
Others	0	0	0	−14
As at 31 December	**516'504**	**483'502**	**3'914**	**4'092**
of which active employees	357'399	349'298		
of which pensioners	159'105	134'204		
Average term of obligation	18.3	18.5		

Development of plan assets

	Pension plans	
in CHF thousands	2016	2015
As at 1 January	376'838	422'608
Plan participation contributions	6'910	6'580
Company contributions	13'056	12'777
Assets extinguished on business divestiture	0	−49'694
Interest income on plan assets	3'245	4'683
Administration expense	−600	−677
Benefits paid through pension assets	−6'026	−15'929
Return on plan assets (excl. amounts in interest income)	6'473	−3'510
As at 31 December	**399'896**	**376'838**

The pension fund assets per 31 December 2016 include shares of LLB with a market value of CHF thousands 10 (31. 12. 2015: CHF thousands 16). The expected Group contributions for the 2017 financial year amount to CHF thousands 12'861 for the pension plans and CHF thousands 511 for the other long-term benefits.

Overview of the net debt recognised in the balance sheet

	Pension plans		Other long-term benefits	
in CHF thousands	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Present value of funded obligations	516'002	483'426	0	0
Minus fair value of plan assets	399'896	376'838	0	0
Under- / (Over-)funded	**116'106**	**106'588**	**0**	**0**
Present value of unfunded obligations	502	76	3'914	4'092
Net debt recognised in the balance sheet	**116'608**	**106'664**	**3'914**	**4'092**

Asset classes and expected returns

	31.12.2016	31.12.2015
in CHF thousands	**Share of total assets**	**Share of total assets**
Equities		
quoted market prices (Level 1)	80'977	82'756
other than quoted market prices	0	0
Bonds		
quoted market prices (Level 1)	150'954	154'459
other than quoted market prices	0	0
Real estate		
quoted market prices (Level 1)	1'193	866
other than quoted market prices	24'894	19'500
Alternative financial investments	910	0
Qualified insurance policies	91'888	83'617
Other financial investments	18'790	23'237
Cash	30'290	12'403

The expected return on bonds and shares is based on the yield for long-term Federal notes and the corresponding market expectations. The remaining expected returns are based on empirical values.

Weighted average of principal actuarial assumptions

	Pension plans		Other long-term benefits	
in percent	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Discount rate	0.70	0.85	0.74	0.90
Future salary increases	1.50	1.50	1.56	1.55
Future pension indexations	0.05	0.05	0.94	0.00
Life expectancy at the age of 65				
Year of birth	1971	1970	1971	1970
men	24.18	23.24	24.18	23.24
women	26.22	25.67	26.22	25.67
Year of birth	1951	1950	1951	1950
men	22.26	21.49	22.26	21.49
women	24.32	23.96	24.32	23.96

Sensitivity analysis of significant actuarial assumptions

The following sensitivity analysis for the significant actuarial assumptions, on which calculations are based, shows how the cash value of pension obligations would change on the balance sheet date on account of a possible change in the actuarial assumptions.

	Pension plans			
	31.12.2016		31.12.2015	
	+0.25 %	−0.25 %	+0.25 %	−0.25 %
Discount rate	−23'242	25'009	−21'525	23'141
Salary increase	2'132	−2'076	2'324	−2'273
Interest credit rate	5'369	−5'235	5'198	−5'064
	+1 year	−1 year	+1 year	−1 year
Life expectancy	13'726	−13'923	12'318	−12'527

Related party transactions

41 Related parties

The LLB Group is controlled by the Principality of Liechtenstein, which holds 57.5 percent of the bearer shares of Liechtensteinische Landesbank AG, Vaduz. At the end of the year under report, LLB held 6.4 percent of its own shares (previous year: 6.4 %), 3.0 percent were held by Thornburg Investment Management Inc. and 0.1 percent were held by members of the Board of Directors and the Board of Management. The remaining bearer shares are owned by the general public.

The related parties of the LLB Group comprise the Principality of Liechtenstein, associated companies, members of the Board of Directors and the Group Executive Management, as well as their close family members and enterprises which are controlled by these individuals through their majority shareholding, or their role as chairman and / or CEO in these companies, as well as their own pension funds.

Within the scope of its business activity, the LLB Group also conducts banking transactions with related parties. These transactions mainly involve loans, investments and services. The volumes of these transactions, the holdings and corresponding income and expenses are shown below.

See "Scope of consolidation", page 163 for a detailed list of the parent / subsidiary relationships of the LLB Group.

Compensation of key management personnel

	Fixed compensation *		Variable compensation		Contribution to benefit plans and other social contributions		Share-based payments		Entitlements		Total	
in CHF thousands	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Compensations												
Members of the Board of Directors **	764	764	0	0	107	110	0	0	170	170	1'041	1'044
Members of the Board of Management ***	3'120	3'134	1'131	481	1'020	1'022	0	0	1'131	481	6'402	5'118

* Fixed compensation fee, meeting allowances.
** The Board of Directors comprises seven members.
*** The Board of Management comprises six members.

Loans of key management personnel

	Fixed mortgages		Variable mortgages		Total	
in CHF thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Members of the Board of Directors						
Hans-Werner Gassner, Chairman	0	0	0	0	0	0
Markus Foser, Vice Chairman	1'000	300	0	0	1'000	300
Markus Büchel, Member	1'291	1'294	0	0	1'291	1'294
Patrizia Holenstein, Member	0	0	0	0	0	0
Roland Oehri, Member	0	0	0	0	0	0
Gabriela Nagel-Jungo, Member	400	400	0	0	400	400
Urs Leinhäuser, Member	0	0	0	0	0	0
Related parties	1'425	1'580	0	0	1'425	1'580
Total	**4'116**	**3'574**	**0**	**0**	**4'116**	**3'574**
Members of the Board of Management						
Roland Matt, CEO	1'005	1'255	0	0	1'005	1'255
Other members of the Board of Management	2'810	2'810	0	0	2'810	2'810
Related parties	0	0	0	0	0	0
Total	**3'815**	**4'065**	**0**	**0**	**3'815**	**4'065**

At 31 December 2016, the maturities of the fixed mortgages for the members of the Board of Directors and related parties ranged between 13 and 107 months (previous year: between 11 and 119 months) at standard market client interest rates of 0.95 to 1.65 percent p.a. (previous year: 1.10 to 1.60 %). At 31 December 2016, the maturities of the fixed mortgages for the members of the Board of Management ranged between 22 and 102 months (previous year: between 1 and 114 months) at interest rates of 0.4 to 1.88 percent p.a. (previous year: 1.05 to 2.88 %).

Of the total amount for mortgages for the members of the Board of Management, CHF thousands 1'000 (previous year: CHF thousands 750) was granted at the preferential interest rate for staff, the remainder was subject to the standard market client interest rate. In the previous year, no new loans were granted.

The fair value of cover of new loans granted amounted to CHF thousands 1'577 (previous year: CHF thousands 1'577).

No allowances for loans to management were necessary. LLB granted third parties guarantees amounting to CHF thousands 168 (previous year: CHF thousands 0) for management and related parties.

Transactions with management

in CHF thousands	2016	2015	+ / − %
Loans			
As at 1 January	7'639	7'926	−3.6
Loans issued during the year	700	300	133.3
Loan repayment during the year	−408	−587	−30.5
As at 31 December	**7'931**	**7'639**	**3.8**
Deposits			
As at 1 January	4'673	4'792	−2.5
Change	697	−119	
As at 31 December	**5'370**	**4'673**	**14.9**
Income and expenses			
Interest income	112	144	−22.3
Interest expenses	−2	−8	−75.0
Other income *	18	14	28.6
Other expenses **	−4	−2	100.0
Total	**124**	**148**	**−16.3**

* Mainly net fee and commission income.
** Services in connection with consultation.

Transactions with own pension funds

in CHF thousands	2016	2015	+ / − %
Loans			
As at 1 January	765	1'444	−47.0
Change	−423	−679	−37.7
As at 31 December	**342**	**765**	**−55.3**
Deposits			
As at 1 January	7'812	5'621	39.0
Change	9'785	2'191	346.6
As at 31 December	**17'597**	**7'812**	**125.3**
Income and expenses			
Interest income	0	0	
Interest expenses	−8	−27	−70.4
Other income *	641	627	2.2
Other expenses	2	−12	
Total	**635**	**588**	**8.0**

* Mainly net fee and commission income.

No guarantees have been granted by the LLB Group for third parties on behalf of own pension funds.

Transactions with associated companies

in CHF thousands	2016	2015	+ / − %
Loans			
As at 1 January	0	0	
Change	0	0	
As at 31 December	**0**	**0**	
Deposits			
As at 1 January	546	452	20.8
Change	196	94	108.7
As at 31 December	**742**	**546**	**35.9**
Income and expenses			
Other income	1	1	−11.0
Total	**1**	**1**	**−11.0**

No guarantees were granted by the LLB Group for third parties for associated companies.

Scope of consolidation

Companies	Jurisdiction of incorporation	Business activity	Currency	Capital Stock	Equity interest (in percent) IFRS	Legal
Fully consolidated companies						
Bank Linth LLB AG *	Uznach	Bank	CHF	16'108'060	74.8	74.2
Liechtensteinische Landesbank AG	Vaduz	Bank	CHF	154'000'000	100.0	100.0
Liechtensteinische Landesbank (Österreich) AG	Vienna	Bank	EUR	2'000'000	100.0	100.0
LLB Asset Management AG	Vaduz	Asset management company	CHF	1'000'000	100.0	100.0
LLB Berufliche Vorsorge AG	Lachen	Staff welfare scheme	CHF	500'000	100.0	100.0
LLB Beteiligungen AG	Uznach	Investment company	CHF	100'000	100.0	100.0
LLB Fund Services AG	Vaduz	Fund management company	CHF	2'000'000	100.0	100.0
LLB Holding (Schweiz) AG	Erlenbach	Holding company	CHF	250'000	100.0	100.0
LLB Invest AGmvK	Vaduz	Investment company	CHF	50'000	100.0	100.0
LLB Linth Holding AG	Uznach	Holding company	CHF	95'328'000	100.0	100.0
LLB Qualified Investors AGmvK	Vaduz	Investment company	CHF	50'000	100.0	100.0
LLB Services (Schweiz) AG	Erlenbach	Service company	CHF	100'000	100.0	100.0
LLB Verwaltung (Schweiz) AG	Erlenbach	Management company	CHF	100'000'000	100.0	100.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Vaduz	Charitable foundation	CHF	30'000	100.0	100.0
Associated companies and joint ventures						
Data Info Services AG	Vaduz	Service Company	CHF	50'000	50.0	50.0
Companies fully consolidated for the first time						
None						
Companies removed from the scope of consolidation						
None						
Changes in company names during 2016						
None						

* On 31 December 2016, the LLB Group held 74.2 percent of the share capital and votes of Bank Linth LLB AG. Bank Linth LLB AG held 4'985 of its own shares on 31 December 2016. This increased the LLB Group's participation in Bank Linth LLB AG and deviated from the legal group participation by the said number of own shares.

In the year under report there were no disposals or losses of control of ownership interests. As per 31 December 2016 and per 31 December 2015, there were no major restrictions in respect of the possibility to access assets of the Group companies or to appropriate them. As per 31 December 2016 and per 31 December 2015, there were no participations in consolidated structured companies.

Risk management

Principles of risk management

One of the core competences of a financial institute is to consciously accept risks and manage them profitably. In its risk policy, the LLB Group defines qualitative and quantitative standards of risk responsibility, risk management and risk control. Furthermore, the organisational and methodical parameters for the identification, measurement, control and monitoring of risks are specified. The proactive management of risk is an integral part of corporate policy and safeguards the LLB Group's ability to bear and accept risk.

Organisation and responsibilities

Group Board of Directors
The Board of Directors of the LLB Group is responsible for stipulating risk management principles, as well as for specifying responsibilities and procedures for approving business transactions entailing risk. In fulfilling its tasks and duties, the Group Board of Directors is supported by the Group Risk Committee.

Group Executive Board
The Group Executive Board is responsible for the overall management of risk readiness within the parameters defined by the Group Board of Directors and for the implementation of the risk management processes. It is supported in this task by Risk Committee.

Group Credit & Risk Management
The Group Credit & Risk Management Department identifies, assesses, monitors and reports on the principal risk exposure of the LLB Group and is functionally and organisationally independent of the operative units. It supports the Group Executive Board in the overall management of risk exposure.

Risk categories

The LLB Group is exposed to various types of risks. It differentiates between the following risk categories:

Market risk
The risk of losses arises from unfavourable changes in interest rates, exchange rates, securities prices and other relevant market parameters.

Liquidity and refinancing risk
Represents the risk of not being able to fulfil payment obligations on time or not being able to obtain refinancing funds on the market at a reasonable price to fulfil current or future payment liabilities.

Credit risk
Credit or counterparty risk includes the danger that a client or a counterparty cannot or cannot completely fulfil their obligations vis à vis the LLB Group or an individual group company. This can result in a financial loss for the LLB Group.

Operational risk
Is the danger of losses due to the unsuitability or failure of internal procedures, people or systems, or as a result of external events.

Strategic risk
Arises as a result of decisions taken by the Group Executive Board, which have a negative influence on the survival, development ability or independence of the LLB Group.

Reputation risk
If risks are not recognised, reasonably controlled and monitored, this can lead not only to substantial financial losses, but also to damage to the group's reputation.

Risk categories

Risk management process

Risk management process

The implementation of an efficient risk management process is essential to enable risks to be identified, assessed, controlled and monitored, and should create a culture of risk awareness at all levels of the LLB Group. The Group Board of Directors specifies the risk strategy, which provides the operative units with a framework for the treatment of risk exposure. Depending on the type of risk, not only the stipulation of upper limits for losses may be required, but also a detailed set of regulations which stipulate which risks may be accepted under what conditions, and when measures to control risks are to be implemented.

The diagram risk management process shows the control loop of the LLB Group's risk management process.

1 Market risks

Market risk is the risk that arises from changes in interest rates, exchange rates and security prices in the financial and capital markets. A differentiation is made between market risks in the trading book and market risks in the banking book. The potential for losses exists primarily in the impairment of the value of an asset or the increase in the value of liabilities (market value perspective) as well as in secondary capacity in the diminution of current earnings or an increase in current expenditures (earnings perspective).

1.1 Market risk management

The LLB Group has in place a differentiated risk management and risk control system for market risks. The market risk control process comprises a sophisticated framework of rules involving the identification and the uniform valuation of market risk-relevant data as well as the control, monitoring and reporting of market risks.

Trading book

The trading book contains own positions in financial instruments which are held for short-term further sale or repurchase. These activities are closely associated with the needs of our clients for capital market products and are regarded as being supporting activities for our core business.

The LLB Group conducts relatively small scale trading book activities in accordance with Article 94 (1) CRR. A limits system is in operation to ensure compliance and is monitored by Group Risk Management. On account of the materiality, the trading book is no longer explained in detail.

Banking book

In general, the holdings in the banking book are employed to pursue long-term investment goals. These holdings include assets, liabilities, and off-balance sheet positions, which are the result, on the one hand, of classical banking business and, on the other, are held to earn revenue over their life.

Market risks with the banking book mainly involve interest rate fluctuation risk, exchange rate risk and equity price risk.

Interest rate fluctuation risk

This is regarded as the adverse effects of changes in market interest rates on capital resources or current earnings. The different interest maturity periods of claims and liabilities from balance sheet transactions and derivatives represent the most important basis.

Exchange rate risk

This relates to the risks arising in connection with the uncertainties regarding future exchange rate trends. The calculation of these risks takes into consideration all the positions entered into by the bank.

Equity price risk

This is understood to be the risk of losses due to adverse changes in the market prices of equities.

1.2 Valuation of market risks

Sensitivity analysis

In sensitivity analysis a risk factor is altered. Subsequently, the effects of the alteration of the risk factor on the portfolio concerned are estimated.

Value-at-risk

The value-at-risk concept measures the potential loss under normal market conditions over a given time interval.

Scenario analysis

While the value-at-risk concept supplies an indication of possible losses under normal market conditions, it cannot provide information about potential losses under extreme conditions. The aim of the scenario analyses of the LLB Group is to simulate the effects of normal and stress scenarios.

1.3 Distribution of market risks

Within the specified limit parameters, the individual group companies are at liberty to manage their interest rate risks as they wish. Interest rate swaps are employed mainly to control interest rate risks. Risks are restricted by means of value-at–risk models and sensitivity limits. In client business, currency risks are basically controlled by making investments or obtaining refinancing in matching currencies. The residual currency risk is restricted by means of sensitivity limits. Investments in equities are limited by the imposition of nominal limits.

1.4 Monitoring and reporting of market risks

Group Credit & Risk Management monitors the observance of market risk limits and is also responsible for reporting market risks.

1.5 Value-at-risk and sensitivities by risk categories

Value-at-risk

The value-at-risk is an estimate of the potential loss under normal market conditions and is calculated at the LLB Group on the basis of a confidence level of 99 percent and a holding period of twelve weeks.

Calculation is made based on historical value-at-risk.

Sensitivities

Interest rate sensitivity measures the market change on interest-rate-sensitive instruments for the LLB Group caused by a linear interest rate adjustment of + / – 100 basis points.

In contrast, currency sensitivity affects both interest rate sensitive and non-interest rate sensitive instruments. The sensitivity of instruments in foreign currencies is determined by multiplying the CHF market value by the assumed exchange rate fluctuation of + / – 10 percent.

The equity price risks are measured assuming a price fluctuation of + / – 10 percent on the equity market.

Effects on group net profit and equity

Exchange rate risk

The price gains resulting from the valuation of transactions and balances are booked to profit and loss. The price gains resulting from the transfer of the functional currency into the reporting currency are booked under other comprehensive income without affecting profit and loss.

Interest fluctuation risk

Within the scope of financial risk management, interest fluctuation risk in the balance sheet business of the LLB Group is primarily secured by means of interest rate swaps. The LLB Group recognises client loans in the balance sheet at amortised cost. This means that a change in the interest rate does not cause any change in the recognised amount and therefore to no significant recognition affecting profit and loss of the effects of interest rate fluctuation. To offset the value adjustments of interest rate hedging transactions, which are to be booked to profit and loss, the LLB Group introduced fair value hedge accounting at portfolio level for interest fluctuation risks from 1 October 2015 (see page 122, point 2.8, Derivative financial instruments and hedge accounting).

At 31.12.2016, mortgage loans stood at CHF 9'986 million. The exchange rate risks applying to this portfolio are hedged at 13.6 percent through interest rate swaps

Equity price risk

The valuation is carried out at current market prices. The equity price risk resulting from the valuation at current market prices is reflected in the income statement and in other comprehensive income.

Sensitivities

in CHF thousands	31.12.2016 Value-at-risk	31.12.2016 Sensitivity	31.12.2015 Value-at-risk	31.12.2015 Sensitivity
Currency risk		**10'581**		**10'132**
of which affecting net income		6'505		56
of which not affecting net income		4'076		10'076
Interest rate risk	**25'547**	**52'598**	**34'130**	**49'815**
of which affecting net income		20'716		24'424
of which not affecting net income		31'882		25'391
Equity price risk *		**38'556**		**36'603**
of which affecting net income		29'315		36'603
of which not affecting net income		9'241		0

* Corresponds to a 10 percent change in equity instruments.

Exchange rate risk by currency

in CHF thousands	31.12.2016 Sensitivity	31.12.2015 Sensitivity
Currency risk	**10'581**	**10'132**
of which USD	856	2'599
of which EUR	8'593	6'802
of which others	1'131	731

Interest fluctuation risk by currency

Increase per 100 basis points in CHF thousands	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31.12.2015						
CHF	−7	−2'505	7'542	4'497	−47'309	−37'782
EUR	−18	562	−3'352	−3'202	−396	−6'405
USD	−18	561	−3'372	−3'499	−1'083	−7'411
Other currencies	−3	82	−906	2'329	281	1'783
All currencies	**−47**	**−1'299**	**−88**	**125**	**−48'507**	**−49'815**
31.12.2016						
CHF	−3	−2'993	8'212	6'324	−53'036	−41'495
EUR	−8	240	−3'238	−1'063	−102	−4'171
USD	−8	312	−2'267	−4'940	−207	−7'109
Other currencies	−4	188	−70	63	0	176
All currencies	**−23**	**−2'253**	**2'638**	**384**	**−53'344**	**−52'598**

1.6 Currency risks

Balance sheet by currency per 31 December 2015

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	2'537'454	857	20'955	706	2'559'972
Due from banks	342'579	1'688'472	1'737'013	486'010	4'254'074
Loans	10'210'865	512'381	233'625	34'619	10'991'490
Trading portfolio assets	2'443	1	6	0	2'450
Derivative financial instruments	59'930	17	895	1'171	62'013
Financial investments at fair value	974'822	275'341	185'423	3'022	1'438'608
Investment in joint venture	47	0	0	0	47
Property and equipment	123'077	0	244	0	123'321
Investment property	16'240	0	0	0	16'240
Goodwill and other intangible assets	124'434	0	59	0	124'493
Current tax assets	0	0	0	0	0
Deferred tax assets	23'669	0	0	0	23'669
Accrued income and prepaid expenses	33'024	7'518	5'155	230	45'927
Non-current assets held for sale	0	0	0	0	0
Other assets	1'456	210	3'877	22'277	27'820
Total assets reported in the balance sheet	**14'450'040**	**2'484'797**	**2'187'252**	**548'035**	**19'670'122**
Delivery claims from forex spot, forex futures and forex options transactions	2'701'115	2'458'905	2'108'035	743'473	8'011'528
Total assets	**17'151'155**	**4'943'702**	**4'295'287**	**1'291'508**	**27'681'651**
Liabilities and equity					
Due to banks	521'891	30'123	26'159	95'461	673'634
Due to customers	10'382'867	2'538'094	2'184'990	521'097	15'627'049
Derivative financial instruments	149'513	17	892	1'171	151'593
Debt issued	1'199'568	0	13'676	0	1'213'244
Current tax liabilities	6'172	0	0	0	6'172
Deferred tax liabilities	21'617	0	0	0	21'617
Accrued expenses and deferred income	18'244	4'618	4'840	189	27'891
Provisions	25'354	0	0	0	25'354
Other liabilities	143'263	5'414	14'355	1'192	164'224
Share capital	154'000	0	0	0	154'000
Share premium	25'785	0	0	0	25'785
Treasury shares	−168'584	0	0	0	−168'584
Retained earnings	1'709'205	0	0	0	1'709'205
Other reserves	−63'849	0	0	0	−63'849
Non-controlling interests	102'787	0	0	0	102'787
Liabilities and equity reported in the balance sheet	**14'227'833**	**2'578'266**	**2'244'912**	**619'110**	**19'670'122**
Delivery liabilities from forex spot, forex futures and forex options transactions	3'021'099	2'339'449	1'982'353	665'089	8'007'990
Total liabilities and equity	**17'248'932**	**4'917'715**	**4'227'265**	**1'284'199**	**27'678'111**
Net position per currency	**−97'777**	**25'987**	**68'022**	**7'309**	**3'540**

Balance sheet by currency per 31 December 2016

in CHF thousands	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central banks	3'362'665	527	87'091	443	3'450'726
Due from banks	350'834	1'042'206	1'236'917	484'904	3'114'861
Loans	10'618'047	568'203	274'832	77'794	11'538'876
Trading portfolio assets	3'612	164	5	0	3'781
Derivative financial instruments	80'776	462	15	1'354	82'607
Financial investments at fair value	966'071	323'351	145'001	4'195	1'438'618
Investment in joint venture	47	0	0	0	47
Property and equipment	124'409	0	561	0	124'970
Investment property	16'018	0	0	0	16'018
Goodwill and other intangible assets	118'403	0	29	0	118'432
Current tax assets	1'205	0	0	0	1'205
Deferred tax assets	18'809	0	0	0	18'809
Accrued income and prepaid expenses	23'402	4'663	4'223	279	32'567
Non-current assets held for sale	845	0	0	0	845
Other assets	3'152	12	267	12'336	15'767
Total assets reported in the balance sheet	**15'688'295**	**1'939'588**	**1'748'941**	**581'304**	**19'958'129**
Delivery claims from forex spot, forex futures and forex options transactions	2'418'568	3'023'018	2'292'267	909'190	8'643'043
Total assets	**18'106'863**	**4'962'606**	**4'041'208**	**1'490'494**	**28'601'172**
Liabilities and equity					
Due to banks	515'203	11'970	70'724	25'035	622'932
Due to customers	10'608'453	2'595'748	2'062'784	593'480	15'860'465
Derivative financial instruments	161'208	462	15	291	161'976
Debt issued	1'218'479	0	9'556	0	1'228'035
Current tax liabilities	10'398	0	0	0	10'398
Deferred tax liabilities	13'745	0	0	0	13'745
Accrued expenses and deferred income	18'127	5'360	2'548	192	26'227
Provisions	51'071	0	0	0	51'071
Other liabilities	164'105	2'816	8'937	1'047	176'905
Share capital	154'000	0	0	0	154'000
Share premium	24'968	0	0	0	24'968
Treasury shares	−167'045	0	0	0	−167'045
Retained earnings	1'758'816	0	0	0	1'758'816
Other reserves	−74'511	0	0	0	−74'511
Non-controlling interests	110'146	0	0	0	110'146
Liabilities and equity reported in the balance sheet	**14'567'164**	**2'616'356**	**2'154'564**	**620'045**	**19'958'129**
Delivery liabilities from forex spot, forex futures and forex options transactions	3'644'920	2'337'690	1'800'714	859'135	8'642'459
Total liabilities and equity	**18'212'084**	**4'954'046**	**3'955'278**	**1'479'180**	**28'600'587**
Net position per currency	**−105'221**	**8'561**	**85'930**	**11'315**	**585**

1.7 Interest rate repricing balance sheet

Interest commitments of financial assets and liabilities (nominal)

in CHF thousands	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31.12.2015						
Financial assets						
Cash and balances with central banks	2'559'972	0	0	0	0	2'559'972
Due from banks	2'443'001	472'688	1'165'230	100'000	0	4'180'919
Loans	1'576'050	1'998'215	1'188'700	4'532'461	1'688'483	10'983'909
Trading portfolio assets	0	0	0	870	1'600	2'470
Financial investments	11'884	82'277	169'640	673'097	116'489	1'053'386
Total financial assets	**6'590'906**	**2'553'181**	**2'523'570**	**5'306'428**	**1'806'572**	**18'780'657**
Derivative financial instruments	140'000	401'000	863'482	40'000	0	1'444'482
Total	**6'730'906**	**2'954'181**	**3'387'052**	**5'346'428**	**1'806'572**	**20'225'139**
Financial liabilities						
Due to banks	358'566	70'065	195'000	50'000	0	673'631
Due to customers	7'196'897	1'135'714	2'694'698	4'510'137	0	15'537'446
Debt issued	8'803	17'270	156'300	624'402	406'470	1'213'244
Total financial liabilities	**7'564'266**	**1'223'049**	**3'045'998**	**5'184'538**	**406'470**	**17'424'321**
Derivative financial instruments	20'000	5'000	153'482	556'000	710'000	1'444'482
Total	**7'584'266**	**1'228'049**	**3'199'480**	**5'740'538**	**1'116'470**	**18'868'803**
Interest rate repricing exposure	**–853'360**	**1'726'132**	**187'572**	**–394'110**	**690'102**	**1'356'336**
31.12.2016						
Financial assets						
Cash and balances with central banks	3'450'726	0	0	0	0	3'450'726
Due from banks	1'490'128	412'424	1'112'328	0	0	3'014'881
Loans	1'803'964	2'122'006	1'344'164	4'599'144	1'632'364	11'501'642
Trading portfolio assets	0	0	0	1'368	2'530	3'898
Financial investments	19'490	42'397	140'269	738'151	76'176	1'016'483
Total financial assets	**6'764'308**	**2'576'827**	**2'596'762**	**5'338'662**	**1'711'070**	**18'987'630**
Derivative financial instruments	120'000	416'000	810'000	15'000	0	1'361'000
Total	**6'884'308**	**2'992'827**	**3'406'762**	**5'353'662**	**1'711'070**	**20'348'630**
Financial liabilities						
Due to banks	267'217	35'000	240'000	80'000	0	622'217
Due to customers	7'126'131	1'325'260	2'854'055	4'417'172	30'029	15'752'647
Debt issued	6'980	16'478	198'571	606'041	395'890	1'223'960
Total financial liabilities	**7'400'328**	**1'376'738**	**3'292'627**	**5'103'212**	**425'919**	**17'598'824**
Derivative financial instruments	0	15'000	170'000	556'000	620'000	1'361'000
Total	**7'400'328**	**1'391'738**	**3'462'627**	**5'659'212**	**1'045'919**	**18'959'824**
Interest rate repricing exposure	**–516'020**	**1'601'089**	**–55'865**	**–305'550**	**665'151**	**1'388'806**

In the interest rate repricing balance sheet excess assets, equity and liability are calculated using fixed-interest rate and derivative positions in the balance sheet and broken down interest commitments of financial assets and liabilities (nominal) into cycle times. The positions within an unspecified duration of interest rate repricing are allocated to the corresponding cycle times on the basis of a replication.

2 Liquidity risk

Liquidity risk is defined as a situation where present and future payment obligations cannot be fully met or met on time, or in the event of a liquidity crisis, refinancing funds may only be available at increased market rates (refinancing costs), or they can only be made liquid at markdowns to market rates (market liquidity risk).

2.1 Liquidity risk management

Processes and organisational structures ensure that liquidity risks are indentified, uniformly measured, controlled and monitored, as well as being included in risk reporting. The liquidity risk regulations, which include the LLB Group's risk tolerance criteria, are regularly reviewed by the Group Executive Board and approved by the Group Board of Directors. The liquidity risk limits to be observed by the LLB Group are stipulated in the regulations.

The objectives of the LLB Group's liquidity risk management include the following points:

- the ability to meet financial obligations at all times
- compliance with regulatory provisions
- optimisation of the refinancing structure
- optimisation of payment streams within the LLB Group

2.2 Valuation of liquidity risks

In our liquidity risk management concept, scenario analysis plays a central role. This includes the valuation of the liquidity of assets, i.e. the liquidity characteristics of our asset holdings in various stress scenarios.

2.3 Contingency planning

The LLB Group's liquidity risk management encompasses a contingency plan. The contingency plan includes an overview of emergency measures, sources of alternative financing and governance in stress situations.

2.4 Monitoring and reporting of liquidity risks

Group Credit & Risk Management monitors compliance with liquidity risk limits and is responsible for reporting on liquidity risks.

2.5 Liquidity coverage ratio (LCR)

The delegated regulation (EU) 2015 / 61, which came into force in Liechtenstein in January 2016, supplements the Capital Requirements Regulation (CRR) in regard to liquidity coverage criteria for banks. The regulations are to ensure that banks possess a reasonable level of liquidity in order to cover their liquidity requirements in the case of a liquidity stress scenario within 30 calendar days. As the only binding regulatory liquidity reference figure, the LCR represents an important indicator both for liquidity risk measurement as well as liquidity risk control.

At the end of 2016, a regulatory LCR lower limit of 70 percent was applicable for the LLB Group. With a value of 115 percent, the LLB Group's ratio was substantially higher than legally required.

The following table shows the maturities according to contractual periods.

Maturity of financial assets and liabilities (nominal including coupons)*

in CHF thousands	Sight deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2015							
Financial assets							
Cash and balances with central banks	2'559'972	0	0	0	0	0	2'559'972
Due from banks	410'235	0	2'508'005	1'170'631	100'198	0	4'189'069
Loans	170'011	331'929	1'764'295	1'681'120	5'820'478	1'755'921	11'523'753
Trading portfolio assets	0	0	0	18	929	1'623	2'569
Derivative financial instruments	0	0	49'350	11'811	339	513	62'013
Financial investments at fair value	0	0	70'794	181'017	721'413	121'973	1'095'197
Total financial assets	**3'202'230**	**331'929**	**4'343'093**	**3'032'785**	**6'643'018**	**1'879'517**	**19'432'573**
Financial liabilities							
Due to banks	155'567	0	273'042	194'928	50'017	0	673'553
Due to customers	10'076'253	4'854'338	105'657	374'523	145'275	0	15'556'046
Derivative financial instruments	0	0	46'604	12'739	44'021	48'229	151'593
Debt issued	0	0	30'440	167'401	664'241	417'322	1'279'404
Total financial liabilities	**10'383'413**	**4'854'338**	**409'138**	**736'852**	**859'532**	**417'322**	**17'660'596**
Net liquidity exposure	**–7'181'183**	**–4'522'410**	**3'933'955**	**2'295'933**	**5'783'486**	**1'462'195**	**1'771'975**
Off-balance sheet transactions	**344'203**	**0**	**0**	**0**	**0**	**0**	**344'203**
Contingent liabilities	60'106	0	0	0	0	0	60'106
Irrevocable promises	275'134	0	0	0	0	0	275'134
Deposit and call liabilities	8'964	0	0	0	0	0	8'964

* Derivative financial instruments at replacement values.

in CHF thousands	Sight deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Total
31.12.2016							
Financial assets							
Cash and balances with central banks	3'450'726	0	0	0	0	0	3'450'726
Due from banks	411'568	0	1'494'498	1'117'179	0	0	3'023'244
Loans	211'975	271'140	2'006'931	1'816'899	6'010'938	1'690'004	12'007'887
Trading portfolio assets	0	0	1	12	1'418	2'574	4'006
Derivative financial instruments	0	0	62'488	18'462	379	1'279	82'607
Financial investments at fair value	0	0	39'040	150'140	783'578	77'136	1'049'893
Total financial assets	**4'156'875**	**271'140**	**3'540'470**	**3'084'229**	**6'795'934**	**1'769'714**	**19'618'363**
Financial liabilities							
Due to banks	109'314	0	192'805	239'817	80'017	0	621'953
Due to customers	9'662'008	4'814'828	590'059	562'192	105'865	30'309	15'765'261
Derivative financial instruments	0	0	62'832	22'249	38'724	38'171	161'976
Debt issued	0	0	27'253	208'283	639'049	403'128	1'277'713
Total financial liabilities	**9'933'299**	**4'814'828**	**810'117**	**1'010'292**	**824'931**	**433'437**	**17'826'903**
Net liquidity exposure	**–5'776'423**	**–4'543'688**	**2'730'353**	**2'073'937**	**5'971'004**	**1'336'277**	**1'791'460**
Off-balance sheet transactions	**326'748**	**0**	**0**	**0**	**0**	**0**	**326'748**
Contingent liabilities	62'839	0	0	0	0	0	62'839
Irrevocable promises	254'805	0	0	0	0	0	254'805
Deposit and call liability	9'104	0	0	0	0	0	9'104

* Derivative financial instruments at replacement values.

3 Credit risk

Within the scope of credit risk management, vital importance is attached to the avoidance of credit risks and the early identification of default risks. In addition to systematic risk / return management at the individual loan level, the LLB Group proactively manages its credit risks at the credit portfolio level. The primary objective is to reduce the overall level of risk through diversification and a stabilisation of expected returns.

3.1 Credit risk management

Processes and organisational structures ensure that credit risks are identified, uniformly evaluated, controlled, monitored and included in risk reporting.

Basically, the LLB Group conducts its lending business for private and corporate clients on a secured basis. The process of granting a loan is based on a thorough evaluation of the borrower's creditworthiness, the possible impairment and the legal existence of collateral, as well as risk classification in a rating process performed by experienced credit specialists. The granting of loans is subject to a specified assignment of authority. A major characteristic of the credit approval process is the separation between front and back office functions.

In addition, the LLB Group conducts lending business with banks on a secured and unsecured basis, whereby individual risk limits are approved for every counterparty.

3.2 Evaluation of credit risks

The consistent evaluation of credit risks represents an essential prerequisite of successful risk management. The credit risk can be broken down into the components: probability of default, loss given default and the exposure at the time point of the default.

Probability of default
The LLB Group assesses the probability of default of individual counterparties by means of an internal rating system. The different rating procedures are adapted to suit the different characteristics of borrowers. The credit risk management ratings employed for banks and debt instruments are based on external ratings from recognised rating agencies.

The reconciliation of the internal rating with the external rating is carried out in accordance with the following master scale.

Loss given default
The loss given default is influenced by the amount of collateralisation and the costs of realising the collateral. It is expressed as a percentage of the individual commitment.

The potential loss at portfolio level is broken down as follows at the LLB Group.

Rating classes (master scale)

LLB rating	Description	External rating (Moody's) **
1 to 4	Investment grade	AAA, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3
5 to 8, not rated *	Standard monitoring	Ba1, Ba2, Ba3, B1, B2
9 to 10	Special monitoring	B3, Caa, Ca, C
11 to 14	Sub-standard	Default

* Non-rated loans are covered and subject to limits.
** For the securitisation of credit risks in the standard approach, the LLB Group employs solely the external ratings of a recognised rating agency (for the segments: due from banks, finance companies and securities firms, due from companies and due from international organisations).

Expected loss
Expected loss is a future-related, statistical concept that permits the LLB Group to estimate the average annual costs that could be incurred if positions in the current portfolio are classified as at risk. It is calculated on the basis of the default probability of a counterparty, the expected credit commitment made to this counterparty at the time of the default, and the magnitude of the loss given default.

Value-at-risk concept
The value-at-risk approach aims at computing the size of fluctuations in credit losses incurred by means of a statistical model and to show the change in the risk status of the credit portfolio.

Scenario analysis
The modelling of external credit losses is performed on the basis of stress scenarios, which enable us to evaluate the effects of fluctuations in the default rates of the assets pledged as collateral taking into consideration the existing risk concentration in every portfolio.

3.3 Controlling credit risk

Credit risk management has the task of actively influencing the risk situation of the LLB Group. This is carried out using a limits system, risk-adjusted pricing, through the possibility of using risk hedging instruments and the specific repayment of credit commitments. Risk management is conducted both at the individual loan and at the portfolio level.

Risk restriction
The LLB Group has in place a comprehensive limits system to restrict credit risk exposure. In addition to the limitation of individual credit risks, to prevent risk concentrations, the LLB Group assigns limits for countries, segments and sectors.

Risk mitigation
To mitigate credit risk exposure, the LLB Group takes security mainly in the form of pledged assets and financial collateral. In the case of financial collateral in the form of marketable securities, we determine their collateral value by applying a schedule of reductions, the size of which is based on the quality, liquidity, volatility, and complexity of the separate instruments.

Derivatives
The LLB Group may employ credit derivatives to reduce risks. This possibility has not been utilised in recent years.

3.4 Monitoring and reporting of credit risks

The organisational structure of the LLB Group ensures that departments which cause the risks and those that evaluate, manage and monitor them are completely separated.

Individual credit risks are monitored by means of a comprehensive limits system. Infringements are immediately reported to the senior officer responsible.

3.5 Risk provisioning

Overdue claims
A claim is deemed to be overdue if a substantial liability from a borrower to the bank is outstanding. The overdraft begins on the date when a borrower exceeds an approved limit, has not paid interest or amortisation, or has utilised an unauthorised credit facility.

Specific valuation allowances are made for claims that are overdue by more than 90 days.

Default-endangered claims
Claims are regarded as being in danger of default if, on the basis of the client's creditworthiness, a loan default can no longer be excluded in the near future.

Specific value allowances
Each impaired claim is individually assessed and the restructuring strategy as well as the estimate of future recoverable amounts are determined. An individual value allowance is allocated on the basis of these criteria.

3.6 Country risks

A country risk arises if specific political or economic conditions in a country affect the value of a foreign position. Country risk is composed of transfer risk (e.g. restrictions on the free movement of money and capital) and other country risks (e.g. country-related liquidity, market and correlation risks).

Country risks are controlled on the basis of a limits system and are continually monitored. Ratings provided by a recognised rating agency are utilised for certain individual countries.

3.7 Maximum credit risk without considering collateral

in CHF thousands	31.12.2016	31.12.2015	Average
Credit risks from balance sheet transactions			
Due from banks	3'114'861	4'254'074	3'684'468
Loans			
Mortgage loans	9'956'289	9'548'989	9'752'639
Loans to public authorities	82'441	82'975	82'708
Other loans	1'500'145	1'359'526	1'429'836
Trading portfolio assets			
Fixed-interest securities	3'772	2'440	3'106
Derivative financial instruments	82'607	62'012	72'310
Financial investments at fair value			
Fixed-interest securities	1'053'057	1'072'579	1'062'818
Total	**15'793'172**	**16'382'595**	**16'087'885**
Credit risks from off-balance sheet transactions			
Contingent liabilities	62'839	60'106	61'473
Irrecoverable commitments	254'805	275'134	264'969
Liabilities from calls on share and other equities	9'104	8'964	9'034
Total	**326'748**	**344'204**	**335'476**

The largest credit risk for the LLB Group arises from loans made to banks and loans made to customers. In the case of loans to customers, the majority of loans are secured by mortgages, which are granted to clients having first-class creditworthiness within the scope of the LLB Group's lending policy. Thanks to the diversified nature of the collateral portfolio, containing properties in the Principality of Liechtenstein and in Switzerland, the risk of losses is reduced to a minimum. The LLB Group undertakes bank investments on both a secured and an unsecured basis. The risk of losses with loans to banks is restricted, on the one hand, through a broad distribution of risks and, on the other, by the strict minimum lending requirements applied to the counterparties.

3.8 Due from banks and loans

	31.12.2016		31.12.2015	
in CHF thousands	Loans	Due from banks	Loans	Due from banks
Neither overdue nor value allowance made	11'297'277	3'114'861	10'698'117	4'254'074
Overdue but no value allowance made	98'411	0	112'226	0
Overdue, value allowance made (specific)	85'781	0	90'591	0
Default-stressed, value allowance made (specific)	164'405	0	201'601	0
Value allowance made (general)	0	0	903	0
Gross	**11'645'874**	**3'114'861**	**11'103'438**	**4'254'074**
Minus allowances (specific)	−106'999	0	−111'948	0
Net	**11'538'875**	**3'114'861**	**10'991'490**	**4'254'074**

Due from banks and loans neither overdue nor allowances made

in CHF thousands	Mortgage loans	Loans to public authorities	Other loans	Total loans	Due from banks
31.12.2015					
Investment grade	4'139'807	3'003	855'958	4'998'768	2'644'682
Standard monitoring	4'894'123	79'972	384'037	5'358'132	1'609'392
Special monitoring	244'598	0	56'778	301'376	0
Sub-standard	39'464	0	377	39'841	0
Total	**9'317'992**	**82'975**	**1'297'150**	**10'698'117**	**4'254'074**
31.12.2016					
Investment grade	4'187'107	1'002	1'308'453	5'496'562	1'918'105
Standard monitoring	5'267'718	81'439	81'318	5'430'475	1'196'756
Special monitoring	296'036	0	33'451	329'487	0
Sub-standard	40'582	0	171	40'753	0
Total	**9'791'443**	**82'441**	**1'423'393**	**11'297'277**	**3'114'861**

Loans overdue but no allowances made

in CHF thousands	Mortgage loans	Loans to public authorities	Other loans	Total loans
31.12.2015				
Overdue by up to 30 days	53'073	0	52'366	105'440
Overdue 31 to 60 days	0	0	6'504	6'504
Overdue 61 to 90 days	0	0	283	283
Total	**53'073**	**0**	**59'153**	**112'226**
31.12.2016				
Overdue by up to 30 days	27'206	0	63'233	90'439
Overdue 31 to 60 days	380	0	7'234	7'614
Overdue 61 to 90 days	50	0	308	358
Total	**27'636**	**0**	**70'775**	**98'411**

Loans with specific allowances

in CHF thousands	Mortgage loans	Loans to public authorities	Other loans	Total loans	Due from banks
31.12.2015					
Overdue Claims	35'453	0	55'138	90'591	0
Default-distressed claims	173'600	0	28'001	201'601	0
Fair value of cover	−177'915	0	−2'329	−180'244	0
Total specific value allowances	**31'138**	**0**	**80'810**	**111'948**	**0**
31.12.2016					
Overdue claims	30'361	0	55'420	85'781	0
Default-distressed claims	137'279	0	27'126	164'405	0
Fair value of cover	−137'792	0	−5'395	−143'187	0
Total specific value allowances	**29'848**	**0**	**77'151**	**106'999**	**0**

Newly agreed loans

Newly agreed loans are not substantial.

3.9 Overdue and default-distressed claims by geographical area

	31.12.2016			31.12.2015		
in CHF thousands	Default distressed claims	Overdue claims	Specific value allowance	Default distressed claims	Overdue claims	Specific value allowance
Liechtenstein and Switzerland	164'405	94'109	69'604	201'601	121'002	67'866
Europe excluding FL / CH	0	1'496	0	0	19'784	6'769
North America	0	1'632	0	0	2'399	0
Asia	0	49'238	562	0	15'437	539
Others	0	37'718	36'833	0	44'195	36'774
Total	**164'405**	**184'193**	**106'999**	**201'601**	**202'817**	**111'948**

3.10 Debt instruments

	31.12.2016			31.12.2015		
in CHF thousands	Trading portfolio	Designation fair value	Total	Trading portfolio	Designation fair value	Total
AAA	0	615'806	615'806	698	569'577	570'275
AA1 to AA3	99	263'547	263'646	0	238'719	238'719
A1 to A3	2'205	149'956	152'161	728	156'883	157'611
Lower than A3	957	7'303	8'260	519	13'645	14'164
Without a rating	512	16'445	16'957	495	93'755	94'249
Total	**3'772**	**1'053'057**	**1'056'830**	**2'440**	**1'072'579**	**1'075'019**

3.11 Taken-over collateral

	2016			2015		
in CHF thousands	Financial investments	Real estate / Properties	Total	Financial investments	Real estate / Properties	Total
As at 1 January	0	1'018	1'018	0	0	0
Additions / (Disposals)	0	0	0	0	1'018	1'018
Profit / (Loss)	0	0	0	0	0	0
As at 31 December	**0**	**1'018**	**1'018**	**0**	**1'018**	**1'018**

Taken-over collateral is resold as soon as possible and is reported under financial investments, trading portfolio assets or investment property.

3.12 Risk concentration

Risk concentration by regions

in CHF thousands	Liechtenstein / Switzerland	Europe excl. FL / CH	North America	Asia	Others *	Total
31.12.2015						
Credit risks from balance sheet transactions						
Due from banks	2'365'632	1'866'858	12'094	5'730	3'760	4'254'074
Loans						
Mortgage loans	9'532'756	16'233	0	0	0	9'548'989
Loans to public authorities	82'975	0	0	0	0	82'975
Other loans	875'534	109'191	7'890	142'806	224'105	1'359'526
Trading portfolio						
Fixed-interest securities	761	703	248	0	728	2'440
Derivative financial instruments	46'167	15'178	21	40	606	62'012
Financial investments at fair value						
Fixed-interest securities	219'778	632'954	111'223	20'276	88'348	1'072'579
Total	**13'123'603**	**2'641'117**	**131'476**	**168'852**	**317'547**	**16'382'595**
Credit risks from off-balance sheet transactions						
Contingent liabilities	50'429	2'570	0	4'057	3'050	60'106
Irrevocable commitments	225'548	18'383	0	9'459	21'744	275'134
Liabilities from calls on shares and other equities	8'964	0	0	0	0	8'964
Total	**284'941**	**20'953**	**0**	**13'516**	**24'794**	**344'204**
31.12.2016						
Credit risks from balance sheet transactions						
Due from banks	1'745'874	1'293'140	14'169	50'638	11'040	3'114'861
Loans						
Mortgage loans	9'931'047	25'242	0	0	0	9'956'289
Loans to public authorities	82'441	0	0	0	0	82'441
Other loans	890'463	158'702	1'658	272'570	176'752	1'500'145
Trading portfolio						
Fixed-interest securities	1'266	2'015	0	0	491	3'772
Derivative financial instruments	52'204	25'262	88	152	4'901	82'607
Financial investments at fair value						
Fixed-interest securities	321'773	544'532	122'405	32'248	32'099	1'053'057
Total	**13'025'068**	**2'048'893**	**138'320**	**355'608**	**225'283**	**15'793'172**
Credit risks from off-balance sheet transactions						
Contingent liabilities	53'688	2'231	0	4'556	2'364	62'839
Irrevocable commitments	214'057	6'662	0	4'829	29'257	254'805
Liabilities from calls on shares and other equities	9'104	0	0	0	0	9'104
Total	**276'849**	**8'893**	**0**	**9'385**	**31'621**	**326'748**

* None of the categories summarised in the position "Others" exceeds 10 percent of the total volume.

Risk concentration by sectors

in CHF thousands	Financial services	Real estate	Private households	Others*	Total
31.12.2015					
Credit risks from balance sheet transactions					
Due from banks	4'254'074	0	0	0	4'254'074
Loans					
Mortgage loans	94'376	1'334'613	6'951'031	1'168'969	9'548'989
Loans to public authorities	0	0	0	82'975	82'975
Other loans	529'230	34'331	369'292	426'673	1'359'526
Trading portfolio					
Fixed-interest securities	605	0	0	1'835	2'440
Derivative financial instruments	48'161	222	5'601	8'028	62'012
Financial investments at fair value					
Fixed-interest securities	599'151	10'650	0	462'778	1'072'579
Total	**5'525'597**	**1'379'816**	**7'325'924**	**2'151'258**	**16'382'595**
Credit risks from off-balance sheet transactions					
Contingent liabilities	9'161	3'323	12'139	35'483	60'106
Irrevocable commitments	49'494	53'124	111'181	61'335	275'134
Liabilities from calls on shares and other equities	8'964	0	0	0	8'964
Total	**67'619**	**56'447**	**123'320**	**96'818**	**344'204**
31.12.2016					
Credit risks from balance sheet transactions					
Due from banks	3'114'861	0	0	0	3'114'861
Loans					
Mortgage loans	121'424	1'495'041	7'144'906	1'194'918	9'956'289
Loans to public authorities	0	0	0	82'441	82'441
Other loans	240'799	34'357	530'319	694'670	1'500'145
Trading portfolio					
Fixed-interest securities	3	0	0	3'769	3'772
Derivative financial instruments	70'310	87	4'657	7'553	82'607
Financial investments at fair value					
Fixed-interest securities	448'910	10'294	0	593'853	1'053'057
Total	**3'996'307**	**1'539'779**	**7'679'882**	**2'577'204**	**15'793'172**
Credit risks from off-balance sheet transactions					
Contingent liabilities	6'280	3'562	10'836	42'161	62'839
Irrevocable commitments	54'101	31'978	72'275	96'451	254'805
Liabilities from calls on shares and other equities	9'104	0	0	0	9'104
Total	**69'485**	**35'540**	**83'111**	**138'612**	**326'748**

* None of the categories summarised in the position "Others" exceeds 10 percent of the total volume.

4 Operational risk

The LLB Group defines operational risks as being the danger of losses due to the failure of internal procedures, people or IT systems or as a result of an external event. Legal risks form a part of operational risks. The LLB Group has in place an active and systematic process for managing operational risks. Policies and directives have been formulated for the identification, control and management of this risk category, which are valid for all Group companies. Potential and incurred losses from all organisational units, as well as significant external events, are recorded and evaluated promptly at the parent bank. In addition, the LLB Group collates and analyses risk ratios, e.g. from the areas of due diligence and employee transactions for own account. Ultimately, the risks are limited by means of internal rules and regulations regarding organisation and control.

5 Strategic risk

For LLB Group, a strategic risk represents the endangering of a projected business result due to the inadequate focusing of the Group on the political, economic, technological, social or ecological environment. Accordingly, these risks can arise as a result of an inadequate strategic decision-making process, unforeseeable events on the market or a deficient implementation of the selected strategies.

Strategic risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

6 Reputational risk

If risks are not identified, adequately managed and monitored, this can lead not only to substantial financial losses, but also to reputational damage. LLB Group does not regard reputational risk as an independent risk category, but rather as the danger of additional losses stemming from the categories concerned. Consequently, a reputational risk can both cause losses in all risk categories, such as market or credit risks, and be caused by such losses.

Reputational risks are regularly reviewed by the Group Risk Committee and by the Group Board of Directors.

7 Fair value of financial instruments

The following table shows the fair values of financial instruments, based on the valuation methods explained in the following, and assumptions. 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 transaction date on the principal market or the most advantageous market. Details about the measurement of fair values are shown in note 34.

Fair value of financial instruments

	31.12.2016			31.12.2015		
in CHF thousands	Carrying value	Fair value	Deviation	Carrying value	Fair value	Deviation
Assets						
Cash and balances with central banks	3'450'726	3'450'726	0	2'559'972	2'559'972	0
Due from banks	3'114'861	3'116'584	1'723	4'254'074	4'260'282	6'208
Loans	11'538'876	12'090'778	551'902	10'991'490	11'623'046	631'556
Trading portfolio assets	3'781	3'781	0	2'450	2'450	0
Derivative financial instruments	82'607	82'607	0	62'013	62'013	0
Financial investments at fair value	1'438'618	1'438'618	0	1'438'608	1'438'608	0
Liabilities						
Due to banks	622'932	624'153	−1'221	673'634	675'052	−1'418
Due to customers	15'860'465	15'939'393	−78'928	15'627'049	15'719'261	−92'212
Derivative financial instruments	161'976	161'976	0	151'593	151'593	0
Debt issued	1'228'035	1'289'599	−61'564	1'213'244	1'289'414	−76'170
Deviation between fair value and carrying value			**411'911**			**467'964**

The following valuation methods are applied in calculating the fair value of financial instruments:

Cash and balances with central banks and money market instruments

These financial instruments have a maturity or a refinancing profile of maximum one year. The book value corresponds approximately to fair value.

Due from / to banks, loans and due to customers

The fair value of these positions having a maturity or a refinancing profile is determined using similar maturity swap rates. Replicate portfolios are employed for products for which fixed-interest rates or cash flows are not known in advance.

Trading portfolio assets, derivative financial instruments and financial investments at fair value through profit and loss

For the majority of financial instruments, fair value corresponds to the market value. The fair value of financial instruments without an established market value is determined using generally accepted valuation models.

8 Netting of financial assets and financial liabilities

The table below provides an overview of the financial assets and financial liabilities which are subject to an enforceable netting agreement or similar agreements. LLB Group has concluded agreements with various counterparties which permit netting. These are mainly agreements in connection with securities lending and borrowing transactions, reverse-repurchase deals and over-the-counter transactions LLB Group does not conduct netting with the financial assets and financial liabilities of balance sheet transactions because the legal requirements for netting are not satisfied. Accordingly, the table below shows unnetted amounts in the balance sheet, risks therefore which the bank has accepted with the individual executed transactions, and which existed on the balance sheet date. The information provided in the table below does not represent the current credit risk in connection with the transactions conducted by LLB Group.

	Subject to netting agreements			Potential netting amounts				
in CHF thousands	Gross amounts before netting	Netting amounts	On the balance sheet recognised amounts, net	Financial instruments	Financial collaterals	Amounts after potential netting	Amounts without potential netting	On the balance sheet recognised amounts
31.12.2015								
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements								
Reverse repurchase agreements	884'088	0	884'088	0	−778'478	105'610	0	884'088
Positive replacement values	62'012	0	62'012	−8'066	−57'361	−3'414	0	62'012
Cash collateral receivables on derivative instruments	112'769	0	112'769	−112'769	0	0	0	112'769
Total assets	**1'058'869**	**0**	**1'058'869**	**−120'834**	**−835'838**	**102'196**	**0**	**1'058'869**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements								
Reverse repurchase agreements	80'000	0	80'000	0	−79'270	730	0	80'000
Negative replacement values	151'594	0	151'594	−112'769	0	38'825	0	151'594
Cash collateral payables on derivative instruments	6'938	0	6'938	−6'938	0	0	0	6'938
Total liabilities	**238'531**	**0**	**238'531**	**−119'706**	**−79'270**	**39'555**	**0**	**238'531**
31.12.2016								
Financial assets subject to off-setting, enforceable netting agreements or similar arrangements								
Reverse repurchase agreements	238'874	0	238'874	0	−176'431	62'443	0	238'874
Positive replacement values	82'607	0	82'607	−4'008	−71'427	7'172	0	82'607
Cash collateral receivables on derivative instruments	118'747	0	118'747	−118'747	0	0	0	118'747
Total assets	**440'228**	**0**	**440'228**	**−122'755**	**−247'858**	**69'615**	**0**	**440'228**
Financial liabilities subject to off-setting, enforceable netting agreements or similar arrangements								
Reverse repurchase agreements	42'903	0	42'903	0	−42'863	40	0	42'903
Negative replacement values	161'976	0	161'976	−118'747	0	43'229	0	161'976
Cash collateral payables on derivative instruments	2'842	0	2'842	−2'842	0	0	0	2'842
Total liabilities	**207'721**	**0**	**207'721**	**−121'589**	**−42'863**	**43'269**	**0**	**207'721**

9 Capital adequacy requirements (Pillar I)

The Banking Law and Banking Ordinance of the Principality of Liechtenstein form the legal basis of capital adequacy requirements, which in turn are based on the directives of the Basel Committee on Banking Supervision as adapted by the European Union.

In accordance with Basel III, the banks may choose from various approaches to calculate the capital requirements for credit, market and operational risks. The LLB Group applies the standard approach for credit risk, the basic indicator approach for operational risks, and the standard approach for market risks (trading book activities of insignificant materiality in accordance with Article 94 (1) CRR). The determination of capital requirements and tier capital is carried out on the basis of the IFRS consolidated financial statement, whereby non-realised gains are deducted from core capital.

At the LLB Group, the scope of consolidation for determining capital requirements and for the financial accounts is identical.

9.1 Segmentation of credit risks

	Regulatory risk weighted									
in CHF thousands	0 %	10 %	20 %	35 %	50 %	75 %	100 %	150 %	250 %	Total
31.12.2016										
Central governments and central banks	3'528'032	0	10'472	0	0	0	0	0	0	3'538'504
Regional governments	0	0	112'370	0	10'222	0	0	0	0	122'592
Public sector entities	0	0	50'758	0	0	0	0	0	0	50'758
International organisations	73'399	0	0	0	0	0	0	0	0	73'399
Banks and securities firms	0	0	2'888'271	0	740'917	0	280	0	0	3'629'468
Corporates	0	0	87'255	0	113'625	0	1'043'159	40'811	0	1'284'849
Retail	0	0	0	0	0	263'921	520'703	0	0	784'624
Secured by real estate	0	0	1'849	7'570'622	1'573'117	0	679'629	0	0	9'825'216
In default	0	0	0	0	0	1'269	94'619	77'549	0	173'437
Equity	0	0	0	0	0	0	27'448	0	47	27'495
Covered bonds	0	175'030	0	0	0	0	0	0	0	175'030
Collective investments and others	65'490	0	19'386	0	0	1	501'262	0	0	586'139
Total	**3'666'921**	**175'030**	**3'170'361**	**7'570'622**	**2'437'881**	**265'192**	**2'867'099**	**118'361**	**47**	**20'271'513**
Total previous year	2'831'199	95'501	4'594'176	7'298'124	2'012'106	236'711	2'821'944	84'528	0	19'974'289

9.2 Mitigation of credit risk

	31.12.2016				31.12.2015			
in CHF thousands	Covered by recognised financial collateral	Covered by guarantees	Other credit commitments	Total	Covered by recognised financial collateral	Covered by guarantees	Other credit commitments	Total
Balance sheet positions	0	9'148	0	9'148	0	6'408	0	6'408
Off-balance sheet positions	0	352	0	352	0	50	0	50
Derivatives	0	0	0	0	0	0	0	0
Total	**0**	**9'499**	**0**	**9'499**	**0**	**6'458**	**0**	**6'458**

9.3 Leverage Ratio (LR)

A further integral part of the Basel III package is the leverage ratio which, with its comparison of unweighted on-balance sheet and off-balance sheet risk positions, on the one hand, and equity held, on the other, attempts to prevent the danger of financial institutes becoming excessively indebted. This reference ratio stands at 3.0 percent and is currently being monitored by the supervisory authority. It is not yet legally binding. At the end of the year 2016, the leverage ratio of LLB Group amounted to 7.8 percent.

10 Internal capital (Pillar II)

The financial market regulatory requirements with respect to quantitative risk management, which arise from Pillar II, are fulfilled by LLB Group by, among other measures, the conducting of a risk-bearing capacity calculation. The objective of the risk-bearing capacity calculation is to ensure the continued existence of LLB Group. In line with this objective, the adequacy of the Group's capital resources is tested using internal models. The results attained with the individual risk types are aggregated in a total risk potential and are compared with the capital available to cover these potential losses. This process enables the extent to be determined to which LLB Group is in a position to bear potential losses.

For the purpose of the calculation of its risk-bearing capacity, LLB Group employs a value-at-risk approach with a confidence level of 99.9 percent and a holding duration of one year. Correlations between the individual risk types are not considered. To underpin operational risks, LLB Group applies the values from the basic indicator approach of Pillar I and adjusts them by adding a risk premium.

LLB Group's financial strength should remain unimpaired by fluctuations on the capital market. Scenario analyses and stress tests are employed to simulate external influences and assess their impact on equity capital. Where necessary, measures are taken to mitigate risks.

Assets under management

in CHF millions	31.12.2016	31.12.2015	+/– %
Assets in own-managed funds	4'568	4'412	3.5
Assets with discretionary mandates	6'519	6'372	2.3
Other assets under management	35'341	34'786	1.6
Total assets under management (incl. double counting)	**46'428**	**45'570**	**1.9**
of which double counting	3'957	3'836	3.2
Net new money	**–65**	**–206**	**–68.4**

Breakdown of assets under management

in percent	31.12.2016	31.12.2015
By asset class		
Equities	22.9	23.1
Bonds	17.3	17.4
Investment funds	23.4	22.9
Liquidity	32.8	33.7
Precious metals / others	3.6	2.9
Total	**100.0**	**100.0**
By currency		
CHF	46.4	47.3
EUR	23.1	23.1
USD	23.7	23.1
Other	6.7	6.5
Total	**100.0**	**100.0**

Calculation method

Assets under management comprise all client assets managed or held for investment purposes. Basically, these include all balances due to customers, fiduciary time deposits and all valued portfolio assets.

Also included are other types of client assets, which can be deduced from the principle of the investment purpose. Custody assets (assets held solely for transaction and safekeeping purposes) are not included in assets under management.

Assets in own-managed funds

This item comprises the assets of the LLB Group's own investment funds.

Assets with discretionary mandates

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of assets with discretionary mandates. The figures comprise both assets deposited with Group companies and assets deposited with third parties, for which the Group companies hold a discretionary mandate.

Other assets under management

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of other assets under management. The figures comprise assets, for which an administration or advisory mandate is exercised.

Double counting

This item comprises fund units in own-managed funds which are contained in client portfolios with discretionary mandates and in other client safekeeping accounts.

Net new money

This position is composed of the acquisition of new clients, lost client accounts and inflows or outflows from existing clients. Performance-related asset fluctuations, e.g. price gains, interest and dividend payments including interest, commissions and expenses charged to client accounts, are not regarded as inflows or outflows. Acquisition-related changes to assets will also not be considered. During the year under report, client assets amounting to net CHF 75 million were reclassified as custody assets.

Financial statement of LLB AG in the online annual report with Excel files for your own statistics

Financial statement of LLB AG, Vaduz

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Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Liechtensteinischen Landesbank Aktiengesellschaft Vaduz

Report on the audit of the financial statements

Opinion
As statutory auditor, we have audited the financial statements (balance sheet, income statement and notes to the financial statements (pages 199 to 221) and the annual report (page 198) of Liechtensteinische Landesbank Aktiengesellschaft (LLB AG) for the year ending as at 31 December 2016.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position in accordance with Liechtenstein law. Further, the financial statements comply with Liechtenstein law and the company's articles of association.

Basis for opinion
We conducted our audit in accordance with the standards promulgated by the profession in Liechtenstein and the International Standards on Auditing (ISAs), which require an audit to be planned and conducted so as to obtain reasonable assurance whether the financial statements and the annual report are free from material misstatement.

We audited the items and disclosures in the financial statements by means of analyses and surveys on a sample basis. Further, we assessed the application of the relevant accounting standards, significant decisions concerning the valuations and the presentation of the financial statements as a whole. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach
Overview

Overall materiality: CHF 2.8 million, which represents 5 % of the result from normal business activities.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:
- Valuation of customer loans
- Completeness and adequacy of provisions for legal and litigation risks

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made. For example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 2.8 million
How we determined it	5 % of the result from normal business activities.
Rationale for the materiality benchmark applied	We chose the result from normal business activities as the benchmark because, in our view, it is the benchmark against which the performance of LLB AG is most commonly measured. The result from normal business activities represents profit before tax and before changes to the provisions for general banking risks and is a generally accepted benchmark for materiality considerations.

We agreed with the Board of Directors that we would report to them misstatements above CHF 0.2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Reporting on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans

Key audit matter

LLB AG grants loans to private individuals, corporates and public entities, primarily located in Liechtenstein and Switzerland.

Loans amount to CHF 6.2 billion (previous year: CHF 5.9 billion) and thus represent the largest asset category. Mortgage-based loans form the majority of the loan portfolio (73.3 % of total loans). In addition, the bank grants corporate loans and Lombard loans.

Any impairments are recognised by means of individual value adjustments. To this end, judgement has to be applied to calculate the amount of the individual value adjustment. We focussed on the two following points:

- The method used by the bank to identify loans that may need adjusting, including loans that show indications of impairment according to the definition of LLB.
- The appropriate and consistent application of the policies and instructions issued by management relating to the calculation of the amount of the individual value adjustment.

The accounting and valuation principles applied to loans, the method used to identify the default risk and to determine the need for impairment as well as the evaluation of the coverage are taken from the management report.

Please refer to page 204 (accounting and valuation principles) and page 207 (comments on the balance sheet).

How our audit addressed the key audit matter

We tested the adequacy and effectiveness of the following key controls relating to the valuation of loans:

- Credit processing and authorisation: Sample testing of the requirements and processes set out in the Bank's internal policies and working instructions in relation to credit processing. We also tested that authorisation is performed at the proper level in accordance with the system of authorities.
- Credit monitoring (periodic re-approval): Sample testing of identified bad debts and identifying the potential need for impairment.

Where significant judgement is required, we also put forward our own critical opinion as part of the substantive tests of detail on the authority to grant loans. Our tests of detail covered the following:

- Sample-based testing of new business and risk positions (including positions with individual value adjustments or indications of impairment) to evaluate whether additional value adjustments are needed.
- Sample-based testing of the method used to calculate value adjustments in terms of its appropriateness and compliance with the policies and working methods issued by the bank.

The combination of the audit of key controls and the tests of detail gives us sufficient assurance to assess the valuation of customer loans as adequate.

The assumptions used by LLB AG are in line with our expectations.

Completeness and adequacy of the provisions for legal and litigation risks

Key audit matter

In the course of normal business, LLB AG is involved in various legal proceedings. The amount of the provisions for legal and litigation risks as of 31 December 2016 is CHF 27.5 million (previous year: CHF 1.4 million).

We identified the completeness and adequacy of the provisions for legal and litigation risks as a key audit matter, as significant judgement exists in the assessment of the probability and the amount of the provisions for any financial obligations.

This includes processes to identify, evaluate and monitor client complaints as well as potential and actual legal proceedings. LLB AG creates provisions for actual and impending proceedings if, in the opinion of the specialists responsible, a cash outflow or a loss is probable and the amount can be reliably estimated.

Please refer to page 205 (accounting principles) and page 212 (comments on the balance sheet).

How our audit addressed the key audit matter

We based our audit on the analyses performed by management. Further, we have referred to external lawyers' letters. We compared the analyses with our own estimates and our understanding of the legal and litigation risks. We performed the following audit procedures:

- Inquiries of the Head of Group Legal and specific members of management.
- Review and inspection of the list of client complaints, correspondence with the regulatory authority as well as the minutes of the meetings of the Board of Directors and the management for indications of potential lawsuits.
- Review of the central inventory of current legal proceedings and testing of lawsuits with regard to the potential need for provisions.
- Obtaining external lawyers' letters and expert opinions on selected ongoing lawsuits with regard to the probability and amount of the provisions, and comparing this with the provisions created by LLB AG as per the financial statements.

The assumptions used by LLB AG are in line with our expectations.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Liechtenstein law and the company's articles of incorporation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or the Group Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or the Group Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors or the Group Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We confirm that the proposal for the appropriation of retained earnings complies with Liechtenstein law and the company's articles of incorporation.

The management report is in accordance with the financial statements.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Claudio Tettamanti
Auditor in charge

Lars Buchmann

St. Gallen, 27 February 2017

Management report

The details of the management report of Liechtensteinische Landesbank AG, Vaduz, can largely be seen in the consolidated report of the LLB Group.

On the balance sheet date, Liechtensteinische Landesbank AG, Vaduz, and its subsidiaries held a total of 1'959'238 bearer shares (previous year: 1'978'202 bearer shares). This corresponds to a share capital stake of 6.4 percent (previous year: 6.4 %). With respect to the volume of and changes to treasury shares of Liechtensteinische Landesbank AG, reference is made to the individual financial statement.

The Board of Directors proposes to the General Meeting of Shareholders on 12 May 2017 that a dividend of net CHF 1.70 per bearer share be paid out.

No important changes have occurred since the balance sheet date which would necessitate the reporting of any additional data or a correction of the 2016 financial statement.

Balance sheet

in CHF thousands	Note	31.12.2016	31.12.2015	+/– %
Assets				
Cash and balances with central banks		2'778'888	1'902'301	46.1
Due from banks		3'382'303	4'637'670	–27.1
due on a daily basis		500'444	473'797	5.6
other claims		2'881'859	4'163'874	–30.8
Loans	1	6'179'539	5'880'718	5.1
of which mortgages	1	4'526'729	4'377'861	3.4
of which subordinated claims (gross)		0	0	
Bonds and other fixed-interest securities		796'903	851'314	–6.4
Money market instruments		0	14'976	–100.0
from public authority issuers		0	14'976	–100.0
from other issuers		0	0	
Bonds		796'903	836'338	–4.7
from public authority issuers		165'981	175'657	–5.5
from other issuers		630'921	660'681	–4.5
of which subordinated bonds		0	0	
Shares and other non-fixed-interest securities		344'176	341'066	0.9
Participations	4	47	47	–0.8
Shares in associated companies	4	170'348	159'481	6.8
Intangible assets		43'580	45'893	–5.0
Fixed assets	6	91'258	87'060	4.8
Own shares	2 a) / 3	78'987	70'919	11.4
Other assets	17	196'831	206'225	–4.6
Accrued income and prepayments		43'265	40'538	6.7
Total assets		**14'106'124**	**14'223'230**	**–0.8**

Liabilities				
Due to banks		993'287	944'719	5.1
due on a daily basis		566'342	685'102	–17.3
with agreed maturities or periods of notice		426'945	259'617	64.5
Due to customers		10'818'128	10'984'038	–1.5
savings deposits		3'068'702	3'067'853	0.0
other liabilities		7'749'426	7'916'186	–2.1
due on a daily basis		7'214'200	7'844'508	–8.0
with agreed maturities or periods of notice		535'226	71'678	646.7
Certified liabilities		291'610	334'862	–12.9
medium-term notes		291'610	334'862	–12.9
Other liabilities	17	228'165	221'516	3.0
Accrued expenses and deferred income		27'398	23'969	14.3
Provisions		32'153	2'626	
tax provisions	9	4'356	949	359.0
other provisions	9	27'797	1'677	
Provisions for general banking risks	9	310'000	310'000	0.0
Share capital	10	154'000	154'000	0.0
Share premium		47'750	47'750	0.0
Retained earnings		1'145'080	1'115'080	2.7
legal reserves		390'550	390'550	0.0
reserves for own shares		78'987	70'919	11.4
other reserves		675'543	653'611	3.4
Balance brought forward		8'526	7'099	20.1
Profit for the year		50'028	77'573	–35.5
Total liabilities		**14'106'124**	**14'223'230**	**–0.8**

Off-balance sheet transactions

in CHF thousands	Note	31.12.2016	31.12.2015	+ / − %
Contingent liabilities	1 / 18	31'468	32'582	−3.4
Credit risks		187'865	205'748	−8.7
irrevocable commitments	1	187'826	205'710	−8.7
call liabilities	1	39	38	1.8
Derivative financial instruments	19	10'758'892	10'273'349	4.7
Fiduciary transactions	20	222'940	101'038	120.6

Income statement

in CHF thousands	Note	2016	2015	+/–%
Interest income		110'793	114'127	–2.9
of which from fixed-interest securities		11'494	12'388	–7.2
of which from trading transactions		29	44	–34.4
Interest expenses		–22'537	–25'350	–11.1
Net interest income		**88'256**	**88'776**	**–0.6**
Shares and other non-fixed-interest securities		1	3	–52.4
of which from trading transactions		1	3	–52.4
Participations and associated companies		0	15'987	–100.0
Income from securities		**1**	**15'990**	**–100.0**
Credit-related commissions and fees		357	392	–8.9
Commissions from securities and investment business		106'240	109'735	–3.2
Other commission and fee income		21'384	23'640	–9.5
Commission and fee expenses		–44'011	–40'725	8.1
Net commission and fee income		**83'970**	**93'043**	**–9.8**
Income from financial transactions		**38'459**	**15'328**	**150.9**
of which from trading business	21	33'809	35'603	–5.0
Income from real estate holdings		1'212	1'270	–4.6
Sundry ordinary income		22'137	16'329	35.6
Other ordinary income		**23'349**	**17'600**	**32.7**
Total operating income		**234'036**	**230'736**	**1.4**
Personnel expenses	22	–93'901	–80'257	17.0
Administrative expenses	23	–38'668	–37'965	1.9
Total operating expenses		**–132'569**	**–118'222**	**12.1**
Gross operating profit		**101'467**	**112'515**	**–9.8**
Depreciation on intangible assets and fixed assets		–19'706	–24'332	–19.0
Sundry ordinary expenses	24	–29'715	–34'668	–14.3
Allowances on claims and allocations to provisions for contingent liabilities and lending risks	9	–8'648	–9'634	–10.2
Earnings from the release of allowances on claims and of provisions for contingent liabilities and lending risks	9	7'374	3'384	117.9
Write-downs on participations, shares in associated companies and securities treated as long-term investments		0	–3'493	–100.0
Earnings from write-ups on participations, shares in associated companies and securities treated as long-term investments		4'279	0	
Result from normal business operations		**55'051**	**43'771**	**25.8**
Income taxes		–5'323	1'277	
Other taxes		301	2'525	–88.1
Releases / (Additions) to provisions for general banking risks		0	30'000	–100.0
Profit for the year*		**50'028**	**77'573**	**–35.5**

* The return on capital (annual profit in relation to balance sheet total) as per 31. December 2016 amounted to 0.35 percent and as per 31. December 2015 amounted to 0.55 percent (pursuant to the Banking Ordinance, Art. 24e, Para. 1, Point 6)

Distribution of balance sheet profit

The Board of Directors proposes to the General Meeting of 12 May 2017 that the balance sheet profit at 31 December 2016 be distributed as follows:

in CHF thousands	2016	2015
Profit for the year	50'028	77'573
Balance brought forward	8'526	7'098
Balance sheet profit	58'554	84'671

Distribution of balance sheet profit		
Allocation to other reserves	5'000	30'000
Allocation to corporate capital (common stock)*	49'029	46'145
Balance carried forward*	4'525	8'526

* Shares eligible for dividends are all shares outstanding except for own shares as of record date. The amounts presented are based on the numbers of shares eligible for dividends as of 31 December 2016.

If this proposal is accepted, a dividend for the 2016 business year of net CHF 1.70 per bearer share will be paid out on 18 May 2017.

Notes on business operations

Liechtensteinische Landesbank Aktiengesellschaft with its registered office in Vaduz and two domestic branch offices is active as a full-service (universal) bank. The LLB AG has subsidiaries in Liechtenstein, Austria and Switzerland. At the end of 2016, LLB AG employed 536 persons (2015: 503) on a full-time equivalent basis. The average headcount in 2016 amounted to 526 persons (2015: 505) on a full-time equivalent basis.

As a universal bank, LLB AG is engaged in the commission and fees business, credit and lending business, money market and interbank business, as well as securities trading business.

Commissions and fees business

The major proportion of revenues from commissions and fees business is attributable to commissions earned in connection with securities trading for customers. Other important income streams are provided by securities safe custody business, asset management (incl. investment funds) and brokering fiduciary investments.

Credit and lending business

The largest proportion of loans comprises mortgages, Lombard loans and advances to public institutions. Mortgages are granted to finance properties in Liechtenstein and in the neighbouring areas of Switzerland. Real estate financing for the rest of Switzerland and Lombard loans are granted within the scope of the integrated asset management business. A major proportion of loans and advances to public authorities relates to credit facilities extended to cantons and municipalities in Switzerland. As regards international syndicated loans, the bank is active to only a very limited extent in this line of business.

Money market and interbank business

Domestic and international funds deposited with the bank, which cannot be invested in the lending business, are placed with first-class banks, predominantly in Switzerland and Western Europe.

Securities trading business

The bank offers its clients a full range of services in connection with the execution and settlement of securities trading transactions. It trades for its own account only to a moderate extent. Transactions with derivative financial instruments for the bank's own account are largely employed for hedging purposes.

Accounting policies and valuation principles

Basic principles

The accounting and valuation policies are drawn up in accordance with the provisions of the Liechtenstein Person and Company Law (PGR), as well as the Liechtenstein Banking Law and the accompanying Banking Ordinance.

Recording of business

All completed business transactions are valued and recorded in the balance sheet and the profit and loss account according to the specified valuation principles. The transactions are booked on the transaction date. Up to their date of settlement or the value date, futures transactions are recorded at their replacement value under other assets or other liabilities.

Foreign currency translations

Assets and liabilities denominated in foreign currencies are translated at the foreign exchange middle rate prevailing on the balance sheet date. Bank note holdings for exchange business are translated at the bank note bid rate in effect on the balance sheet date. Exchange gains and losses arising from the valuation are booked to the profit and loss account. The following exchange rates were employed for foreign currency conversion:

Reporting date rate	31.12.2016	31.12.2015
1 USD	1.0167	0.9989
1 EUR	1.0726	1.0871
1 GBP	1.2588	1.4783

Average rate	2016	2015
1 USD	0.9889	0.9672
1 EUR	1.0895	1.0751
1 GBP	1.3397	1.4772

Liquid funds, public authority debt instruments and bills approved for refinancing by central banks, balances due from banks and customers, liabilities

These items are shown in the balance sheet at nominal value minus any unearned discount on money market instruments.

Impaired due amounts, i.e. amounts due from debtors who probably will not repay them, are valued on an individual basis and their impairment is covered by specific allowances. Off-balance sheet transactions, such as commitments for loans, guarantees and derivative financial instruments, are also included in this valuation. Loans are regarded as overdue at the latest when interest and / or principal repayments are more than 90 days in arrears. Overdue and impaired interest payments are charged directly to allowances and provisions. Loans are put on a non-accrual basis if the interest due on them is deemed to be uncollectible and interest accrual is therefore no longer practical.

The impairment is measured on the basis of the difference between the book value of the claim and the probable recoverable amount taking into consideration counterparty risk and the net proceeds from the realisation of any collateral. If it is expected that the realisation process will take longer than one year, the estimated realisation proceeds are discounted on the balance sheet date. The specific allowances are deducted directly from the corresponding asset positions. A claim is reclassified as no longer endangered if the outstanding principal and interest are again repaid on time in accordance with the original contractual terms. To cover the risks in retail business, which are composed of numerous small claims, lump-sum individual allowances, calculated on the basis of empirical values, are made for the unsecured loans and overdrawn limits for which individual allowances have not already been considered.

Debt instruments and other fixed-interest securities, equities and other non-fixed-interest securities

Trading portfolios of securities and precious metals are valued at the market value on the balance sheet date. Securities for which there is no regular, active market are carried at the lower of cost or market value. Holdings of securities and precious metals as current assets are valued at the lower of cost or market value. Interest earnings are credited to the item interest income, dividend income is carried under the item income from securities. Price gains are shown under the item income from financial transactions.

Fixed-interest securities that are intended to be held until final maturity are valued according to the accrual method. Accordingly, interest income, including amortisation of premiums and accretion of discounts, is recognised on an accrual basis until final maturity. Interest-related realised capital gains or losses arising from the premature sale or redemption of securities are recognised on an accrual basis over the remaining period to maturity, i.e. up to the original date of final maturity. Interest earnings are credited to the item interest income. Equities and precious metals holdings held as fixed assets are valued at the lower of cost or market value. Dividend income is carried under the item income from securities. Allowances are shown under the items write-downs to participations or earnings from write-ups to participations, shares in associated companies and securities treated as long-term investments, or earnings from additions to participations, shares in associated companies and securities are treated as long-term investments.

Participations

Participations comprises shares owned by LLB AG in companies which represent a minority participation and which are held as long-term investments, as well as all participations of an infrastructural nature. These items are valued at cost minus necessary allowances.

Shares in associated companies

LLB AG's existing majority participations are recorded as shares in associated companies. These items are valued at cost minus necessary allowances.

Intangible assets

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that economic benefits will flow to the company from them, and the costs can be measured reliably. Internally developed software meeting these criteria and purchased software are capitalised and subsequently amortised over three to ten years.

Low-cost acquisitions are charged directly to administrative expenses.

Tangible fixed assets

Real estate is valued at the acquisition cost plus any investment that increases the value of the property, less necessary depreciation. New buildings and refurbishments are depreciated over 33 years and building supplementary costs over 10 years. No depreciation is charged on undeveloped land unless an adjustment has to be made to allow for a reduction in its market value. Other physical assets include fixtures, furniture, machinery and IT equipment. They are capitalised and depreciated in full over their estimated economic life (3 to 5 years).

Low-cost acquisitions are charged directly to administrative expenses.

Treasury shares

Own shares (treasury shares) held by the Liechtensteinische Landesbank are recognised at market values up to the acquisition costs and are reported as treasury shares. The difference between the market value of treasury shares and the acquisition costs is reported in the income statement under income from financial transactions.

Allowances and provisions

In accordance with prudent accounting practice, specific allowances and provisions as well as general allowances are made for all risks existing on the balance sheet date. Allowances are offset directly with the corresponding asset position. Provisions are booked as such in the balance sheet.

Taxes

Accruals for taxes payable on the basis of the profits earned in the period under report are charged as expenses in the corresponding period. Provisions for deferred tax are formed in relation to allowances and provisions recognised only for tax purposes. The calculation is made on the basis of the estimated tax rates used for actual taxation.

Provisions for general banking risks

Provisions for general banking risks are precautionary reserves formed to hedge against latent risks in the bank's operating activities.

Off-balance sheet transactions

Off-balance sheet transactions are valued at nominal values. Provisions are made in the case of identifiable risks arising from contingent liabilities and other off-balance sheet transactions.

Derivative financial instruments

The gross replacement values of individual contracts in derivative financial instruments – positive and negative replacement values are not offset against each other – are stated in the balance sheet (under other assets or other liabilities) and in the notes to the financial statement. All replacement values for contracts concluded for the bank's own account are reported. In contrast, in the case of customer transactions only the replacement values for OTC contracts are reported, or for exchange-traded products if margin requirements are inadequate. The contract volumes are reported in the statement of off-balance sheet transactions and in the notes. Trading positions in financial derivatives are valued at market rates provided the contracts are listed on an exchange or a regular, active market exists. If this is not the case, the contracts are valued at the lower of cost or market value. If interest business positions are hedged with derivatives, the differential amount between the market value and the accrual method is recognised in the settlement account.

Statement of cash flows

On account of its obligation to prepare a consolidated financial statement, LLB AG is exempted from the necessity to provide a statement of cash flow. The consolidated statement of cash flow the LLB Group is a part of the consolidated financial statement.

Changes to the previous year

None.

Notes to the balance sheet

1 Type of collateral

in CHF thousands		Secured by mortgage	Other collateral	Unsecured	Total
		Type of collateral			
Loans					
Loans (excluding mortgage loans)		35'474	959'212	658'124	1'652'810
Mortgage loans					
residential property		3'659'785	18'344	4'173	3'682'302
office and business property		390'042	0	897	390'939
commercial and industrial property		175'365	43	0	175'408
other		239'464	10'206	28'410	278'080
Total loans	**31.12.2016**	**4'500'130**	**987'805**	**691'604**	**6'179'539**
	31.12.2015	4'348'106	827'883	704'729	5'880'718
Off-balance sheet transactions					
Contingent liabilities		1'063	24'965	5'440	31'468
Irrevocable commitments		64'720	5'551	117'555	187'826
Call liabilities		0	0	39	39
Total off-balance sheet transactions	**31.12.2016**	**65'783**	**30'516**	**123'034**	**219'333**
	31.12.2015	106'440	33'567	98'323	238'330

Impaired claims

in CHF thousands	Gross outstanding amount	Estimated proceeds from realisation of collateral	Net outstanding amount	Specific allowances
31.12.2016	**87'661**	**33'067**	**54'594**	**54'594**
31.12.2015	120'341	60'892	59'449	59'449

2 Securities and precious metals holdings

a Securities and precious metals trading positions

	Book value		Cost		Market value	
in CHF thousands	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Debt securities	3'770	2'440	3'741	2'232	3'770	2'440
listed	3'770	2'440	3'741	2'232	3'770	2'440
unlisted	0	0	0	0	0	0
Equities	3	133	45	246	3	133
listed	3	133	45	246	3	133
of which own shares	0	128	0	200	0	128
unlisted	0	0	0	0	0	0
Precious metals	6'143	6'169	6'143	8'830	6'143	6'169
Total	**9'916**	**8'742**	**9'930**	**11'308**	**9'916**	**8'742**

b Securities and precious metals holdings as current assets (excluding trading positions)

	Book value		Cost		Market value	
in CHF thousands	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Debt securities	793'133	848'874	794'346	837'090	793'133	848'874
listed	793'133	848'874	794'346	837'090	793'133	848'874
unlisted	0	0	0	0	0	0
Equities	137'792	130'034	234'735	228'791	137'792	130'034
listed	78'987	70'790	167'045	168'384	78'987	70'790
unlisted	58'805	59'244	67'690	60'406	58'805	59'244
Total	**930'925**	**978'908**	**1'029'082**	**1'065'880**	**930'925**	**978'908**

c Securities and precious metals as fixed assets

	Book value		Cost		Market value	
in CHF thousands	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Debt securities	0	0	0	0	0	0
valued according to accrual method	0	0	0	0	0	0
Equities	285'363	281'813	291'030	289'445	293'319	287'555
listed	0	0	0	0	0	0
unlisted	285'363	281'813	291'030	289'445	293'319	287'555
Precious metals	6'183	16'628	6'183	16'627	6'183	16'628
Total	**291'546**	**298'441**	**297'213**	**306'072**	**299'502**	**304'183**

3 Own shares included in current assets (excluding trading positions)

	Quantity		Book value	
Quantity / in CHF thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Start of year	1'974'622	1'974'622	70'790	78'935
Bought	0	0	0	0
Sold	−15'384	0	−1'339	0
Additions / (Impairments)	0	0	9'535	−8'145
End of year	**1'959'238**	**1'974'622**	**78'987**	**70'790**

4 Participations and shares in associated companies

in CHF thousands	31.12.2016	31.12.2015
Participations		
With market value	0	0
Without market value	47	47
Total participations	**47**	**47**
Shares in associated companies		
With market value	0	0
Without market value	170'348	159'481
Total shares in associated companies	**170'348**	**159'481**

5 Substantial participations and shares in associated companies

Company name and registered office	Business activity	Curr-ency	Share capital	% share of votes	% share of capital
Participations					
Data Info Services AG, Vaduz	Service company	CHF	50'000	50.0	50.0
Shares in associated companies					
Bank Linth LLB AG, Uznach *	Bank	CHF	16'108'060	74.2	74.2
Liechtensteinische Landesbank (Österreich) AG, Vienna	Bank	EUR	2'000'000	100.0	100.0
LLB Asset Management AG, Vaduz	Asset management	CHF	1'000'000	100.0	100.0
LLB Beteiligungen AG, Uznach	Investment company	CHF	100'000	100.0	100.0
LLB Fund Services AG, Vaduz	Fund management company	CHF	2'000'000	100.0	100.0
LLB Holding (Schweiz) AG, Erlenbach	Holding company	CHF	250'000	100.0	100.0
LLB Invest AGmvK	Investment company	CHF	50'000	100.0	100.0
LLB Linth Holding AG, Uznach	Holding company	CHF	95'328'000	100.0	100.0
LLB Qualified Investors AGmvK, Vaduz	Investment company	CHF	50'000	100.0	100.0
LLB Services (Schweiz) AG *	Service company	CHF	100'000	100.0	100.0
LLB Verwaltung (Schweiz) AG, Erlenbach *	Management company	CHF	100'000'000	100.0	100.0
Zukunftsstiftung der Liechtensteinischen Landesbank AG	Charitable foundation	CHF	30'000	100.0	100.0

* Indirect participation.

6 Statement of fixed assets

in CHF thousands	Cost	Accumulated depreciation	Book value 31.12.2015	Invest-ments	Disinvest-ments	Reclassi-fications	Additions	Depre-ciation	Book value 31.12.2016
Total participations (non-controlling interests)	**2'187**	**–2'140**	**47**	**0**	**0**	**0**	**0**	**0**	**47**
Total shares in associated companies	**196'100**	**–36'619**	**159'481**	**10'867**	**0**	**0**	**0**	**0**	**170'348**
Total securities and precious metals as fixed assets	**378'302**	**–79'861**	**298'441**	**0**	**–6'895**	**0**	**0**	**0**	**291'546**
Total intangible assets *	**118'868**	**–72'975**	**45'893**	**8'999**	**0**		**0**	**–11'312**	**43'580**
Real estate									
bank premises	166'340	–102'938	63'402	11'161	–5'428	0	0	–3'885	65'250
other properties	25'038	–10'038	15'000	0	0	0	0	0	15'000
Other fixed assets	86'517	–77'859	8'658	6'859	0	0	0	–4'509	11'008
Total fixed assets	**277'895**	**–190'835**	**87'060**	**18'020**	**–5'428**	**0**	**0**	**–8'394**	**91'258**
Fire insurance value of real estate			196'534						196'118
Fire insurance value of other fixed assets			36'055						33'611

* Solely licence and software costs.

Depreciation is carried out according to prudent business criteria over the estimated service life. No undisclosed reserves exist.

7 Pledged or assigned assets and assets subject to reservation of ownership

in CHF thousands	31.12.2016	31.12.2015
Excluding lending transactions and pension transactions with securities		
Book value of pledged and assigned (as collateral) assets	40'091	33'979
Actual commitments	0	0
Lending transactions and pension transactions with securities		
Self-owned securities lent or delivered as collateral within the scope of securities lending or borrowing transactions, or self-owned securities transferred in connection with reverse repurchase agreements	33'391	9'699
of which capable of being resold or further pledged without restrictions	33'391	9'699
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	622'876	1'143'165
of which resold or further pledged securities	42'707	18'772

8 Liabilities due to own pension funds

in CHF thousands	31.12.2016	31.12.2015	+ / − %
Current account, call money and time deposits	2	1	57.0
Savings deposits	17'061	7'661	122.7
Total	**17'063**	**7'662**	**122.7**

9 Allowances and provisions / provisions for general banking risks

in CHF thousands	Total 31.12.2015	Specific allowances	Recoveries, overdue interest, currency differences	New provisions charged to income statement	Provisions released to income statement	Total 31.12.2016
Allowances for loan default risks						
Specific allowances	59'420	−7'477	1'348	8'648	−7'345	54'594
Lump-sum individual allowances (incl. those for country risks)	29	0	0	0	−29	0
Provisions for taxes and deferred taxes	949	0	0	4'356	−949	4'356
Other provisions	1'677	−117	0	26'237	0	27'797
Total allowances and provisions	**62'075**	**−7'594**	**1'348**	**39'241**	**−8'323**	**86'747**
Minus allowances	−59'449					−54'594
Total provisions according to balance sheet	**2'626**					**32'153**
Provisions for general banking risks	**310'000**					**310'000**

10 Share capital, significant shareholders and groups of shareholders linked by voting rights

	31.12.2016			31.12.2015		
in CHF thousands	Total nominal value	Quantity	Capital ranking for dividend	Total nominal value	Quantity	Capital ranking for dividend
Share capital	154'000	30'800'000	144'204	154'000	30'800'000	144'109
Total common stock	**154'000**	**30'800'000**	**144'204**	**154'000**	**30'800'000**	**144'109**

No conditional or authorised capital exists.

	31.12.2016		31.12.2015	
in CHF thousands	Nominal	Holding in %	Nominal	Holding in %
With voting right: Principality of Liechtenstein	88'500	57.5	88'500	57.5

11 Statement of shareholders' equity

in CHF thousands	2016
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	70'919
Other reserves	653'611
Provisions for general banking risks	310'000
Balance sheet profit	84'671
Total shareholders' equity as at 1 January (before profit distribution)	**1'711'501**
Dividend and other distributions from previous year's profit	−46'145
Net profit for the year	50'028
Allocation to provisions for general banking risks	0
Total shareholders' equity at 31 December (before profit distribution)	**1'715'384**
Of which:	
Share capital	154'000
Share premium	47'750
Legal reserves	390'550
Reserve for own shares	78'987
Other reserves	675'543
Provisions for general banking risks	310'000
Balance sheet profit	58'554

12 Maturity structure of assets, liabilities and provisions

in CHF thousands		Sight deposits	Callable	Due within 3 months	Due between 3 months to 12 months	Due between 12 months to 5 years	Due after 5 years	Immo-bilised	Total
Assets									
Cash and balances with central banks		2'778'888	0	0	0	0	0	0	2'778'888
Due from banks		500'438	6	1'547'550	1'212'329	118'276	3'704	0	3'382'303
Loans		33'752	374'649	1'164'714	987'461	2'709'339	909'624	0	6'179'539
of which mortgage loans		26'962	156'644	248'588	588'301	2'663'259	842'975	0	4'526'729
Securities and precious metals held for trading		9'916	0	0	0	0	0	0	9'916
Securities and precious metals holdings as currents assets (excluding trading positions)		930'925	0	0	0	0	0	0	930'925
Securities and precious metals holdings as fixed assets		6'183	285'363	0	0	0	0	0	291'546
Other assets		246'052	3	70'610	31'370	42'200	50'496	92'276	533'007
Total assets	**31.12.2016**	**4'506'154**	**660'021**	**2'782'874**	**2'231'160**	**2'869'815**	**963'824**	**92'276**	**14'106'124**
	31.12.2015	3'753'570	661'369	3'587'323	2'277'349	2'870'250	985'288	88'078	14'223'230
Liabilities and provisions									
Due to banks		566'342	0	351'985	74'960	0	0	0	993'287
Due to customers		7'152'495	3'094'664	415'258	155'612	99	0	0	10'818'128
of which savings deposits		0	3'032'959	18'599	17'045	99	0	0	3'068'702
of which other liabilities		7'152'495	61'705	396'659	138'567	0	0	0	7'749'426
Certified liabilities		0	0	18'489	133'231	98'627	41'263	0	291'610
of which medium-term notes		0	0	18'489	133'231	98'627	41'263	0	291'610
Provisions (excluding provisions for general banking risks)		0	0	0	0	32'153	0	0	32'153
Other liabilities		69'023	0	63'927	24'176	45'511	52'926	0	255'563
Total liabilities and provisions	**31.12.2016**	**7'787'860**	**3'094'664**	**849'659**	**387'979**	**176'390**	**94'189**	**0**	**12'390'740**
	31.12.2015	8'523'221	2'821'555	326'886	204'840	293'621	341'607	0	12'511'729

Bonds and other fixed-interest securities that are due in the following business year	131'215

13 Due from and due to associated companies and related parties

a Due from and due to participations and associated companies

in CHF thousands	31.12.2016	31.12.2015	+/− %
Due from participations	320'396	92'310	247.1
Due to participations	860'783	0	
Due from associated companies	286'690	657'878	−56.4
Due to associated companies	126'159	808'440	−84.4

b Due from and due to qualified participations and companies associated with the Principality

in CHF thousands	31.12.2016	31.12.2015	+/− %
Due from the Principality of Liechtenstein	1'002	5'911	−83.0
Due to the Principality of Liechtenstein	0	402'479	−100.0
Due from companies associated with the Principality *	59'750	54'019	10.6
Due to companies associated with the Principality *	0	18'194	−100.0

* Associated companies: Liechtensteinische Kraftwerke, Liechtensteinische Gasversorgung, LTN Liechtenstein TeleNet AG, Liechtensteinische Post AG, Liechtenstein Bus Anstalt and AHV-IV-FAK-Anstalt.

The stated due from and due to are included in the balance sheet in the items loans and due to customers.

c Loans to corporate bodies

in CHF thousands	31.12.2016	31.12.2015	+/− %
Members of the Board of Directors	3'716	2'874	29.3
Members of the Board of Management	2'565	2'815	−8.9

d Related party transactions

Transactions (e.g. securities transactions, payment transfers, lending facilities and interest on deposits) were made with related parties under the same terms and conditions as applicable to third parties.

14 Breakdown of assets and liabilities by location

in CHF thousands	31.12.2016 FL / CH	31.12.2016 Abroad	31.12.2015 FL / CH	31.12.2015 Abroad
Assets				
Cash and balances with central banks	2'778'888	0	1'902'301	0
Due from banks	2'016'734	1'365'570	2'751'308	1'886'362
Loans (excluding mortgages)	1'082'951	569'859	1'026'254	476'603
Mortgage loans	4'476'929	49'800	4'329'205	48'656
Bonds and other fixed-interest securities	69'044	727'859	0	851'314
Shares and other non-fixed-interest securities	337'686	6'490	286'880	54'186
Participations	47	0	47	0
Shares in associated companies	98'508	71'840	98'508	60'973
Intangible assets	43'580	0	45'893	0
Fixed assets	91'258	0	87'060	0
Own shares	78'987	0	70'919	0
Other assets	130'944	65'887	141'479	64'746
Accrued income and prepayments	29'750	13'515	26'229	14'309
Total assets	**11'235'304**	**2'870'820**	**10'766'082**	**3'457'148**
Liabilities				
Due to banks	238'407	754'880	314'919	629'800
Due to customers (excluding savings deposits)	5'060'934	2'688'492	5'103'209	2'812'977
Savings deposits	2'717'306	351'396	2'719'591	348'261
Certified liabilities	291'610	0	334'862	0
Other liabilities	163'935	64'229	178'693	42'823
Accrued expenses and deferred income	16'937	10'460	16'415	7'553
Provisions	32'152	1	2'626	0
Provisions for general banking risks	310'000	0	310'000	0
Share capital	154'000	0	154'000	0
Share premium	47'750	0	47'750	0
Legal reserves	390'550	0	390'550	0
Reserves for own shares	78'987	0	70'919	0
Other reserves	675'543	0	653'611	0
Profit carried forward	8'526	0	7'099	0
Profit for the year	50'028	0	77'573	0
Total liabilities	**10'236'665**	**3'869'458**	**10'381'816**	**3'841'414**

15 Geographical breakdown of assets by location

	31.12.2016 Absolute value	31.12.2016 % of total	31.12.2015 Absolute value	31.12.2015 % of total
Liechtenstein / Switzerland	11'235'304	79.6	10'766'082	75.7
Europe (excluding Liechtenstein / Switzerland)	2'167'187	15.4	3'075'908	21.6
North America	138'337	1.0	20'594	0.1
Asia	333'325	2.4	138'049	1.0
Others	231'970	1.6	222'597	1.6
Total assets	**14'106'124**	**100.0**	**14'223'230**	**100.0**

16 Breakdown of assets and liabilities by currency

in CHF thousands	CHF	EUR	USD	Others	Total
Assets					
Cash and balances with central banks	2'766'261	12'021	248	358	2'778'888
Due from banks	624'594	1'230'973	1'041'958	484'778	3'382'303
Loans (excluding mortgages)	800'308	218'549	559'285	74'668	1'652'810
Mortgage loans	4'526'729	0	0	0	4'526'729
Bonds and other fixed-interest securities	433'691	91'202	272'010	0	796'903
Shares and other non-fixed-interest securities	303'179	29'822	11'175	0	344'176
Participations	47	0	0	0	47
Shares in associated companies	170'348	0	0	0	170'348
Intangible assets	43'580	0	0	0	43'580
Fixed assets	91'258	0	0	0	91'258
Own shares	78'987	0	0	0	78'987
Other assets	193'352	1'160	821	1'499	196'831
Accrued income and prepayments	27'347	4'523	10'826	569	43'265
Total on-balance sheet assets	**10'059'679**	**1'588'250**	**1'896'323**	**561'872**	**14'106'124**
Delivery claims from forex spot, forex futures and forex options transactions	2'552'551	2'295'880	3'122'146	939'240	8'909'817
Total assets	**12'612'230**	**3'884'130**	**5'018'469**	**1'501'112**	**23'015'941**
Liabilities					
Due to banks	156'975	378'513	367'365	90'434	993'287
Due to customers (excluding savings deposits)	3'519'564	1'551'588	2'158'838	519'436	7'749'426
Savings deposits	3'064'234	4'468	0	0	3'068'702
Certified liabilities	282'054	9'556	0	0	291'610
Other liabilities	217'228	5'258	3'278	2'401	228'165
Accrued expenses and deferred income	18'273	2'332	6'451	342	27'398
Provisions	32'153	0	0	0	32'153
Provisions for general banking risks	310'000	0	0	0	310'000
Share capital	154'000	0	0	0	154'000
Share premium	47'750	0	0	0	47'750
Legal reserves	390'550	0	0	0	390'550
Reserves for own shares	78'987	0	0	0	78'987
Other reserves	675'543	0	0	0	675'543
Profit carried forward	8'526	0	0	0	8'526
Profit for the year	50'028	0	0	0	50'028
Total on-balance sheet liabilities	**9'005'865**	**1'951'715**	**2'535'932**	**612'612**	**14'106'124**
Delivery liabilities from forex spot, forex futures and forex options transactions	3'647'370	1'898'888	2'468'973	893'738	8'908'969
Total liabilities	**12'653'235**	**3'850'603**	**5'004'905**	**1'506'350**	**23'015'093**
Net position per currency	**– 41'005**	**33'527**	**13'564**	**– 5'238**	**848**

17 Other assets and liabilities

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Precious metals holdings	12'327	22'797	–45.9
Tax prepayments	303	179	69.1
Positive replacement values	104'782	87'021	20.4
Other receivables *	74'104	88'659	–16.4
Clearing accounts	1'287	2'892	–55.5
Deferred tax claim	4'028	4'676	–13.9
Total other assets	**196'831**	**206'225**	**–4.6**
Charge accounts	4'399	15'239	–71.1
Negative replacement values	161'142	153'085	5.3
Settlement account	21'130	15'039	40.5
Other receivables *	23'227	26'514	–12.4
Clearing accounts	18'267	11'639	56.9
Total other liabilities	**228'165**	**221'516**	**3.0**

* Replacement values are shown gross.

Notes to off-balance sheet transactions

18 Contingent liabilities

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Credit guarantees and similar instruments	19'372	21'952	–11.8
Performance guarantees and similar instruments	6'439	5'489	17.3
Other contingent liabilities	5'657	5'141	10.0
Total contingent liabilities	**31'468**	**32'582**	**–3.4**

19 Open derivative contracts

		Trading instruments			"Hedging" instruments		
in CHF thousands		Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments							
Swaps		0	0	0	23'227	80'306	1'751'000
Forward transactions		6	182	9'568	0	0	0
Foreign exchange contracts							
Forward contracts		76'933	76'012	8'717'535	0	0	0
Options (OTC)		3'015	3'015	76'204	0	0	0
Precious metals							
Forward contracts		232	258	18'259	0	0	0
Options (OTC)		0	0	0	0	0	0
Equity / Index contracts							
Options (OTC)		1'369	1'369	186'326	0	0	0
Total excluding netting agreements	**31.12.2016**	**81'555**	**80'836**	**9'007'892**	**23'227**	**80'306**	**1'751'000**
	31.12.2015	61'353	59'098	8'402'559	25'667	93'987	1'870'790

Liechtensteinische Landesbank AG has concluded no netting agreements.

20 Fiduciary transactions

in CHF thousands	31.12.2016	31.12.2015	+ / – %
Fiduciary deposits with other banks	222'940	101'038	120.6
Total fiduciary transactions	**222'940**	**101'038**	**120.6**

Notes to the income statement

21 Income from trading operations

in CHF thousands	2016	2015	+/– %
Foreign exchange trading	31'405	34'252	–8.3
Foreign note trading	1'603	315	408.3
Precious metals trading	755	858	–12.0
Securities trading	45	178	–74.5
Total	**33'809**	**35'603**	**–5.0**

22 Personnel expense

in CHF thousands	2016	2015	+/– %
Salaries and compensations	–74'454	–63'631	17.0
Social benefits and retirement benefit plans	–15'480	–13'920	11.2
of which retirement benefit plans	–10'312	–9'248	11.5
Other personnel expenses	–3'966	–2'706	46.5
Total	**–93'901**	**–80'257**	**17.0**

The emoluments of the Board of Directors and the Board of Management are disclosed in the consolidated financial statement.

23 Administrative expenses

in CHF thousands	2016	2015	+/– %
Occupancy expenses	–3'173	–3'108	2.1
Expenses for IT, machinery, vehicles and other equipment	–13'857	–12'240	13.2
Other business expenses	–21'638	–22'617	–4.3
Total	**–38'668**	**–37'965**	**1.9**

24 Other ordinary expenses

in CHF thousands	2016	2015	+/– %
Losses on receivables	–976	–33'495	–97.1
Operational risk	–26'180	0	
Sundry other ordinary expenses	–2'559	–1'174	118.1
Total other ordinary expenses	**–29'715**	**–34'668**	**–14.3**

Risk management

Overview

LLB AG's risk policy is governed, in legal and operative terms, by the Liechtenstein Banking Law, the corresponding Banking Ordinance and the principles of the Basel Committee for Banking Supervision as well as by the bank's own statutes and business regulations. The ultimate responsibility for basic risk policy and for continually monitoring the bank's risk exposure lies with the Board of Directors. In fulfilling this function, it is supported by Risk Committee. The Board of Management has overall responsibility for risk management. It is supported by separate expert committees. An independent Group Credit & Risk Management monitors compliance with the issued regulations.

Market risks

On the basis of its business activity, LLB AG is exposed primarily to interest rate fluctuation, share price and currency risks. The Group Risk Management Committee is responsible for managing risks associated with trading activities, and the Asset & Liability Committee for controlling interest rate fluctuation risks. These bodies limit risk exposure using sensitivity and value-at-risk analyses. Aggregate risks are analysed and worst-case scenarios are simulated on a regular basis.

Credit default risks

Credit and lending facilities are extended primarily in interbank business, in private and corporate client business mainly on a secured basis, and in business transactions with public authorities. The Group Credit Risk Committee is responsible for credit risk management. The bank pursues a conservative collateral lending policy. Credits and loans are granted within the scope of strict credit approval procedures. An internal rating system is employed to determine risk-related terms and conditions. A limits system based on the creditworthiness of the individual country is used to control country risks.

Valuation estimates of real estate are stipulated in internal directives. The market value, which serves as the basis for loan-to-value ratios, is determined as follows:

- owner-occupied property: actual value
- investment property: productive and actual value, depending on the property and the ratio of productive to actual value
- owner-used commercial or industrial property: the productive and actual values attainable on the market, depending on the property and the ratio of productive to actual value
- building land: internally stipulated price estimates taking into consideration future use

Operational and legal risks

Internal regulations and directives concerning organisation and controls are employed to limit exposure to operative and legal risks. In formulating these instructions, the Board of Management is supported by the Operational Risk Committee. Compliance with these regulations is regularly checked by the Group Compliance and Group Operational Risk / ICS Department and by the Group Internal Audit Department. External legal experts are brought in on a case-by-case basis to control and manage legal risks.

Liquidity risks

Liquidity risks are monitored and managed in accordance with the provisions of banking law.

Business policy concerning the use of derivative financial instruments

Within the scope of balance sheet management, interest rate swaps are concluded to hedge interest rate fluctuation risks. Furthermore, derivative financial instruments are employed primarily within the context of transactions for clients. Both standardised and OTC derivatives are traded for the account of clients.

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