

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.

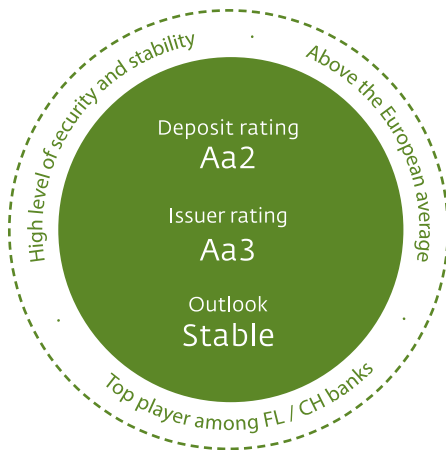
Basel III standard

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.