



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.

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 conceptual 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.

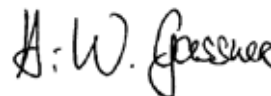
We are confident that, thanks to our stable foundation, focused business model, diversified earnings structure and clear strategy, we can achieve further operative progress and attain a solid business result in the 2017 business year.

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, conceptual 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