

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 authentication, 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