

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 benefiting 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