

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 one of the largest regional banks 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 its 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. However, 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 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

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