Liechtensteinische Landesbank 1861

Tradition meets Innovation.

Excellence

through

Experience

Consolidated interim financial reporting 2018

hr2018.llb.li

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Contents

Information for shareholders

LLB-share

Security number		35514757
ISIN		LI0355147575
Listing		SIX Swiss Exchange
Ticker symbols	Bloomberg	LLBN SW
	Reuters	LLBN.S
	Telekurs	LLBN

Capital structure

	30.06.2018	31.12.2017	+ / – %
Share capital	154'000'000	154'000'000	0.0
Total shares issued	30'800'000	30'800'000	0.0
Total shares outstanding, eligible for dividend	28'941'659	28'877'063	0.2

	30.06.2018	30.06.2017	+ / – %
Weighted average shares outstanding	28'913'975	28'863'518	0.2

Information per share

	30.06.2018	31.12.2017	+ / – %
Nominal value (in CHF)	5.00	5.00	0.0
Share price (in CHF)	61.00	49.65	22.9

	30.06.2018	30.06.2017	+ / – %
Basic earnings per share (in CHF)	1.46	1.98	– 26.6
Price / earnings ratio	20.92	12.34	

Comparison of LLB share

Indexed from 1 January 2015

Key figures

Consolidated income statement

in CHF millions	First half 2018	First half 2017	+ / – %
Income statement			
Operating income	183.5	189.7	–3.2
Operating expenses	–128.3	–116.0	10.6
Net profit	45.8	60.0	–23.7
Performance figures			
Cost-Income-Ratio (in percent) * / **	71.2	62.8	
Return on equity attributable to the shareholders of LLB (in percent)	4.8	6.7	

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expenses).
** Adjusted to consider market effects (interest rate swaps and price gains) the Cost-Income-Ratio for the first half 2018 stood at 69.2 percent, and for the first half 2017 at 68.5 percent.

Consolidated balance sheet and capital management

in CHF millions	30.06.2018	31.12.2017	+ / – %
Balance sheet			
Total equity	1'871	1'883	–0.6
Total assets	21'082	20'017	5.3
Capital ratio			
Tier 1 ratio (in percent) *	21.6	22.2	
Risk-weighted assets	7'791	7'568	2.9

* Corresponds to the CET ratio 1 because the LLB Group has solely hard core capital.

Others

in CHF millions	First half 2018	First half 2017	+ / – %
Net new money	1'119	731	53.1

	30.06.2018	31.12.2017	+ / – %
Business volumes (in CHF millions)	62'934	62'336	1.0
Assets under management (in CHF millions)	50'538	50'252	0.6
Loans (in CHF millions)	12'396	12'084	2.6
Employees (full-time equivalent, in positions)	888	867	2.4

Purely for ease of reading, the masculine form used in this document is intended to refer to both genders.
Liechtensteinische Landesbank Aktiengesellschaft is referred to variously in the following as Liechtensteinische Landesbank AG, Liechtensteinische Landesbank, LLB AG, LLB as well as LLB parent bank. Liechtensteinische Landesbank (Österreich) AG is also referred to as LLB (Österreich) AG and LLB Österreich. Bank Linth LLB AG is also referred to in this report as Bank Linth.

This consolidated interim financial reporting is published in German and English. The German version is authoritative.
We also offer the 2018 consolidated interim financial reporting in an interactive online version:

German: http://hb2018.llb.li
English: http://hr2018.llb.li

Due to rounding, the numbers presented in this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Going forward with excellence

Dear shareholders

There is one large headline at the LLB Group for the 2018 business year: we are continuing to grow sustainably. Both organically and through the acquisition of two companies. We have made further progress with all the key components of the StepUp2020 strategy, i.e. growth, profitability, innovation and excellence. Our business model is aligned with our clients' requirements, our earnings structure is diversified and we have a strong capital base.

On course with organic growth

The economic and political environment remained demanding. Negative interest rates and ongoing regulatory requirements, as well as new competitors continued to challenge the banks. Against this backdrop, the LLB Group achieved further operative progress. The business volume reached CHF 62.9 billion. A net new money inflow of CHF 1.1 billion meant that we grew substantially and sustainably in all three market divisions, as well as in the three booking centres. Client assets under management rose to CHF 50.5 billion. Loans to clients climbed to CHF 12.4 billion with mortgage lending business expanding by 2.1 percent to CHF 10.8 billion.

The LLB Group's operative result continued to progress very positively. Both client business and, especially, fee and commission business contributed to this performance.

In comparison with the equivalent period in the previous year, the sidewards trend with Swiss franc interest rates led to lower valuation gains with interest rate swaps, as measured on the reporting date. The negative market development and higher USD interest rates also resulted in accounting losses with financial investments, as measured on the reporting date. On account of these market effects, the Group's net profit of CHF 45.8 million was 23.7 percent below the previous year's level (see the "Consolidated interim management report", pages 16 – 17).

Gratifying acquisition-based growth

Sustainable, profitable growth is one of the key objectives of the StepUp2020 strategy. The acquisitions of LB(Swiss) Investment AG in Zurich and Semper Constantia Privatbank AG in Vienna represent a quantum leap for the LLB Group in the implementation of this strategy. The integration of these two acquisitions forms our key focus in 2018. The LLB Group took over LB(Swiss) Investment AG, an investment fund service provider, on 3 April 2018. In May, the company was renamed LLB Swiss Investment AG. So we are now offering external asset managers, family offices, pension funds and banks made-to-measure fund services in Switzerland as well.

On 4 July 2018, the LLB Group also took over Semper Constantia Privatbank AG in Vienna, which is not included in the consolidated interim financial reporting 2018. It conducts both private banking and institutional business. The bank offers first-class wealth management and advisory services. At the end of September 2018, a merger is planned of Semper Constantia with LLB Austria to form Liechtensteinische Landesbank (Austria) AG. This will create Austria's leading wealth management bank with client assets of more than CHF 22 billion. Austria will therefore become a third strong home market for the LLB Group.

Fund powerhouse in the FL / A / CH region

The LLB Group is a pioneer in investment fund business in Liechtenstein, a major provider of individual private label fund solutions and, as a custodian bank for external funds, a market leader. Now we are in the process of realising our strategic goal of geographically extending and expanding our investment fund business. The takeover of Semper Constantia enables us to open up and develop the Austrian fund market while positioning ourselves strategically in the Swiss fund market through LLB Swiss Investment AG.

Investment fund business is a growth market, which we want to serve in future from three locations, namely Vaduz, Vienna and Zurich. Consequently, with over 600 investment funds, assets of CHF 31 billion and around 80 employees, this makes us a fund powerhouse in the FL / A / CH region.

Outstanding investment competence

The investment competence of LLB Asset Management is one of the great strengths of the LLB Group. The international awards we have received again confirm this in 2018. At the beginning of February, the LLB even received three Lipper Fund Awards Switzerland for being best group over three years for our bond, equity and strategy funds. In March this was followed by the Lipper Fund Awards Austria, at which the LLB won the award for the best real estate fund in Austria.

Digitalisation and the bank branch of the future

The digitalisation of banking business is a further key priority of our StepUp2020 strategy. Our integrated Online Banking stands out thanks to its functionality and highest standard of security. At the Best of Swiss Web Awards 2018 in April, we received the silver award for our technology. During the first half of 2018, we expanded and refined our online services to make them even more attractive. Among other improvements, we modified our payment transfer system to conform with the new European standards.

At the LLB Group, our bank branches continue to be the most important locations for maintaining contacts with our clients. To enable us to optimally cover the change in client requirements shaped by digitalisation, our omni-channel strategy includes an innovative bank branch concept. In our bank branches of the future, obtaining advice in a multi-media client zone becomes an inspiring experience. By 2020, LLB and Bank Linth aim to remodel their entire network of bank branches in line with the new concept.

New members of the Board of Directors

At the General Meeting of Shareholders on 9 May 2018, Thomas Russenberger and Dr. Richard Senti were elected as new members of the Board of Directors. They bring with them vast experience and expertise in the areas of human resources, finance and risk management as well as in the formulation of strategy and the development of corporate culture. At the same time, with a proportion of 30 percent women, the structure of the Board of Directors has a strong signal effect. For the first time in the history of the LLB Group, the Board of Directors elected Prof. Dr. Gabriela Nagel-Jungo as a Vice-Chairwoman.

Public share repurchase programme

Gratifyingly, the price of the LLB share is continuing to rise and has substantially exceeded the sector index. On 30 June 2018, the share closed at CHF 61.00. The total return stood at plus 26.8 percent. The STOXX Europe 600 Banks index stood at minus 10.3 percent at the end of June.

LLB is launching a public share repurchase programme to buy back up to a maximum of 400'000 of its own registered shares via the regular trading line of SIX Swiss Exchange. The repurchase programme shall commence on 24 August 2018 and lasts until 31 December 2020 at the latest.

Support for the Government's initiative to revoke the state guarantee

LLB has a limited state guarantee provided by the Principality of Liechtenstein. Article 5 of the Law on the Liechtensteinische Landesbank (LLBG) of 21 October 1992, stipulates that the Principality shall be liable for savings account deposits and medium-term notes (cash bonds) of the Landesbank, insofar as the bank's own resources are not sufficient.

To ensure conformity with the regulations concerning state aid in accordance with Article 61 of the EEA treaty, the Principality and LLB concluded an agreement on 13 September 2005, which regulates the compensation for the state guarantee and which is valid until 31 July 2020.

LLB supports the Government's initiative, in view of the forthcoming expiry of the agreement, not to renew it and to submit a report and a proposal to the Landtag (Liechtenstein parliament) to delete Article 5 of the LLBG.

Financial strength and stability

Independent of the limited state guarantee, the LLB Group stands for security and stability. It is superbly capitalised and still has plenty of scope to fulfil its growth ambitions. At 30 June 2018, our equity totalled CHF 1.9 billion and the tier 1 ratio stood at 21.6 percent. This ratio substantially exceeds the legal requirements and demonstrates our very sound capital base in international comparison.

In April 2018, the rating agency Moody's confirmed Liechtensteinische Landesbank's Aa2 deposits rating, which underlines our stability and financial strength. Accordingly, LLB is among the top range of Liechtenstein and Swiss banks and ranks well above the average of European financial institutions.

StepUp2020 strategy on course

The commitment to the highest quality in implementing the StepUp2020 strategy exhibited by the Board of Directors, the Group Executive Management and all employees forms the key to the success of the LLB Group. At the same time, we are continuing to invest in innovative products and services, drive forward our digitalisation initiatives and generate new growth impulses with our lean management culture.

In the second half of 2018, we shall focus on the integration of the acquisitions, as well as on profitability. We are well on course to reach the financial targets we have set ourselves. Thanks to the takeover of Semper Constantia, by the end of 2018, we shall substantially exceed the target business volume of over CHF 70 billion earlier than planned. However the acquisitions will also bring integration costs meaning that strict cost management will continue to be a priority. We are confident that we can continue to make operative progress in the second half of 2018 and we can again achieve a solid business result at the end of the year.

We want to express our thanks to our clients for their loyalty. The LLB Group's achievements are mainly thanks to the efforts of our employees, who give their best every day. Our thanks to you, our esteemed shareholders, for your trust and support.

Yours sincerely

Roland Matt
Group CEO

Georg Wohlwend
Chairman of the Board of Directors

Retail & Corporate Banking Segment

Private and corporate clients

The Retail & Corporate Banking Division of the LLB Group offers the entire spectrum of banking and financial services for private and corporate clients in Liechtenstein and Switzerland at all phases of life and the business cycle. Traditionally, savings and mortgage lending business has always played a very important role. This is supplemented by financial planning and corporate pensioning provisioning. In addition, the LLB Group provides specific investment advice and asset management to clients having available assets of up to CHF 0.5 million. At the same time, it offers services for small and medium-sized enterprises (SMEs). Retail & Corporate Banking combines bank branches with mobile and web-based services. It has three branches in Liechtenstein and 19 in the Swiss cantons of Zurich, St. Gallen, Thurgaus and Schwyz.

Business segment result

Interest differential business, which comprises the largest part of earnings in private and corporate client business, recorded a positive development. The pressure on margins in deposits and mortgage business was more than compensated for by growth in lending business. In the reporting period value allowances for credit loss expense were released. In spite of investments in the branch and distribution network, operating expenses remained stable.

The business volume rose by 1.1 percent to CHF 19.0 billion. Loans to customers in line with LLB's risk conscious policy expanded by 1.4 percent. The segment posted new money inflows from private and corporate clients in the home markets of Switzerland and Liechtenstein.

Segment reporting

in CHF thousands	First half 2018	First half 2017	+ / – %
Net interest income	44'841	42'741	4.9
Credit loss (expense) / recovery	2'665	– 3'104	
Net interest income after credit loss expense	47'505	39'638	19.8
Net fee and commission income	15'737	15'482	1.6
Net trading income	5'541	5'454	1.6
Other income	711	536	32.6
Total operating income	**69'495**	**61'110**	**13.7**
Personnel expenses	– 15'183	– 15'214	– 0.2
General and administrative expenses	1'957	– 981	
Depreciation and amortisation	0	– 34	– 100.0
Services (from) / to segments	– 24'678	– 24'952	– 1.1
Total operating expenses	**– 37'904**	**– 41'180**	**– 8.0**
Segment profit before tax	**31'590**	**19'930**	**58.5**

Performance figures

	First half 2018	First half 2017
Net new money (in CHF millions)	200	– 97
Growth of net new money (in percent)	2.4	– 1.1
Cost-Income-Ratio (in percent) *	56.7	64.1
Gross margin (in percent) **	70.7	70.4

* 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

	30.06.2018	31.12.2017	+ / – %
Business volumes (in CHF millions)	18'969	18'763	1.1
Assets under management (in CHF millions)	8'514	8'449	0.8
Loans (in CHF millions)	10'455	10'314	1.4
Employees (full time equivalent, in positions)	193	193	0.2

Private Banking Segment

Private Banking

The Private Banking Division of the LLB Group combines advisory quality and investment competence with modern technology. The focus lies on the onshore markets of Liechtenstein, Switzerland and Austria, our traditional cross-border markets in Germany and Western Europe, as well as the growth markets in Central and Eastern Europe and the Middle East. In addition, the Private Banking Division is responsible for groupwide product management.

The Private Banking Division offers international clients investment advice, wealth management, asset structuring, financing facilities, as well as financial and retirement planning. These services are provided at its three banks in Liechtenstein (Vaduz), Switzerland (Uznach) and Austria (Vienna), as well as at representative offices in Zurich-Erlenbach, Geneva, Vienna, Abu Dhabi and Dubai, and at the bank branches of the LLB Group in Eastern Switzerland and Liechtenstein.

Business segment result

In interest business the Private Banking segment benefitted from rising USD interest rates. Fee and commission business also showed a pleasing development thanks to our distribution efforts and innovative investment solutions. The strategic expansion of human resources in client advisory services was reflected in operating expenses.

The Private Banking segment posted net new money inflows of CHF 473 million. Both client assets under management and loans to clients increased resulting in an expansion of business volume of 2.8 percent to CHF 16.4 billion.

Segment reporting

in CHF thousands	First half 2018	First half 2017	+ / – %
Net interest income	16'698	12'031	38.8
Credit loss (expense) / recovery	–110	0	
Net interest income after credit loss expense	16'588	12'031	37.9
Net fee and commission income	36'296	35'131	3.3
Net trading income	4'396	4'537	–3.1
Other income	2	0	
Total operating income	**57'281**	**51'699**	**10.8**
Personnel expenses	–16'467	–15'885	3.7
General and administrative expenses	–1'563	–1'143	36.7
Depreciation and amortisation	0	0	
Services (from) / to segments	–14'578	–13'768	5.9
Total operating expenses	**–32'608**	**–30'795**	**5.9**
Segment profit before tax	**24'673**	**20'904**	**18.0**

Performance figures

	First half 2018	First half 2017
Net new money (in CHF millions)	473	130
Growth of net new money (in percent)	3.3	1.0
Cost-Income-Ratio (in percent) *	56.8	59.6
Gross margin (in percent) **	71.5	69.1

* 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

	30.06.2018	31.12.2017	+ / – %
Business volumes (in CHF millions)	16'448	16'007	2.8
Assets under management (in CHF millions)	14'685	14'316	2.6
Loans (in CHF millions)	1'763	1'691	4.3
Employees (full time equivalent, in positions)	162	161	0.2

Institutional Clients Segment

Intermediary and investment fund business, asset management

The Institutional Clients Division encompasses the intermediary and investment fund business, as well as asset management services predominantly in the Liechtenstein and Swiss markets. LLB Asset Management AG fulfils a central role within the LLB Group. It possesses extensive investment competence and takes care of portfolio management, the management of institutional mandates and investment fund management. LLB Fund Services AG is one of the leading investment fund providers in Liechtenstein. It possesses comprehensive, broadly-based expertise. With the LLB Swiss Investment AG, the LLB is present in Switzerland. The LLB teams of experts for the care of fiduciaries, external asset managers, insurances and public institutions are distinguished by their integral, partner-like client focus.

Business segment result

The segment profit before tax of the Institutional Clients segment again increased by over 13 percent. Operating income improved largely on account of the good performance of interest business from foreign currency investments. Income from fees and commissions exceeded the previous year's result thanks to active sales and marketing efforts, as well as the first-time consolidation of LLB Swiss Investment AG. Operating expenses rose on account of the takeover of the personnel of LLB Swiss Investment AG.

Positive inflows in all business areas led to a gratifying increase in net new money inflows of CHF 446 million. At CHF 27.7 billion, the business volume remained stable.

Segment reporting

in CHF thousands	First half 2018	First half 2017	+ / – %
Net interest income	9'156	6'896	32.8
Credit loss (expense) / recovery	637	0	
Net interest income after credit loss expense	9'793	6'896	42.0
Net fee and commission income	29'384	27'589	6.5
Net trading income	5'673	5'367	5.7
Other income	1	0	
Total operating income	**44'850**	**39'853**	**12.5**
Personnel expenses	– 9'948	– 8'981	10.8
General and administrative expenses	– 1'561	– 1'048	49.0
Depreciation and amortisation	– 27	0	
Services (from) / to segments	– 7'047	– 6'700	5.2
Total operating expenses	**– 18'583**	**– 16'729**	**11.1**
Segment profit before tax	**26'268**	**23'124**	**13.6**

Performance figures

	First half 2018	First half 2017
Net new money (in CHF millions)	446	698
Growth of net new money (in percent)	1.6	2.8
Cost-Income-Ratio (in percent) *	42.0	42.0
Gross margin (in percent) **	32.4	30.7

* 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

	30.06.2018	31.12.2017	+ / – %
Business volumes (in CHF millions)	27'743	27'790	– 0.2
Assets under management (in CHF millions)	27'338	27'485	– 0.5
Loans (in CHF millions)	405	305	32.8
Employees (full time equivalent, in positions)	102	90	13.1

Corporate Center Segment

Controlling processes and risks

The Corporate Center bundles central functions within the LLB Group and supports the market-oriented divisions in conducting their activities and implementing their strategies. The focus lies on functions in the areas of communication, marketing, human resources, finance, risk and credit management, IT, trading, securities administration and payment services, corporate development, purchasing, as well as legal and compliance services.

The Corporate Center of the LLB Group steers, coordinates and monitors groupwide business activities, processes and risks. It ensures the Group's corporate development including information technology and enhances the efficiency and quality of the LLB Group's services.

Business segment result

The LLB Group reports the structural contribution from interest business, the valuation of interest rate hedging instruments and income from financial investments under the Corporate Center.

Operating income decreased by CHF 25.1 million to CHF 11.9 million. The fall was attributable to accounting losses incurred with financial investments measured at fair value on the reporting date. These amounted to minus CHF 10.4 million in comparison with a gain of CHF 5.2 million in the first half of 2017. The valuation of interest rate hedging instruments measured on the reporting date totalled CHF 5.5 million in the first half of 2018 (first half 2017: CHF 11.5 million). The development of CHF interest rates was responsible for the decline. These rose more strongly in the first half of 2017 than in the first half of 2018. Operating expenses increased on account of the strategic expansion of personnel in the areas of innovation and risk management.

Segment reporting

in CHF thousands	First half 2018	First half 2017	+ / – %
Net interest income	6'083	10'961	– 44.5
Credit loss (expense) / recovery	0	0	
Net interest income after credit loss expense	6'083	10'961	– 44.5
Net fee and commission income	– 3'783	– 3'755	0.7
Net trading income	18'775	23'200	– 19.1
Net income from financial investments at fair value	– 10'370	5'178	
Share of net income of joint venture	– 2	– 1	100.0
Other income	1'204	1'425	– 15.5
Total operating income	**11'908**	**37'009**	**– 67.8**
Personnel expenses	– 39'893	– 36'788	8.4
General and administrative expenses	– 30'960	– 21'976	40.9
Depreciation and amortisation	– 14'691	– 13'955	5.3
Services (from) / to segments	46'304	45'420	1.9
Total operating expenses	**– 39'240**	**– 27'299**	**43.7**
Segment profit before tax	**– 27'331**	**9'710**	

Additional information

	30.06.2018	31.12.2017	+ / – %
Employees (full time equivalent, in positions)	431	423	1.9

Consolidated interim financial statement
in our online interim financial reporting with
Excel files for your own statistics

Consolidated interim financial statement of the LLB Group

(unaudited)

Consolidated interim management report

Group financial statement

In the first half of 2018, the LLB Group earned a net profit of CHF 45.8 million (first half of 2017: CHF 60.0 million). The net profit was therefore 23.7 percent or CHF 14.2 million lower than in the equivalent period in the previous year.

In comparison with the first half of 2017, operating income fell by 3.2 percent and operating expenses increased by 10.6 percent. The profit attributable to the shareholders of Liechtensteinische Landesbank amounted to CHF 42.1 million (first half of 2017: CHF 57.3 million). Earnings per share stood at CHF 1.46 (first half of 2017: CHF 1.98).

Income statement

Operating income decreased in the first half of 2018 by 3.2 percent to CHF 183.5 million (first half of 2017: CHF 189.7 million).

Interest income before credit loss expense rose by 5.7 percent or CHF 4.1 million in comparison with the previous year to CHF 76.8 million (first half of 2017: CHF 72.6 million). Interest business with clients remained stable. Risk-conscious growth in mortgage lending business and lower refinancing costs compensated for the expected decline in earnings due to the extension of fixed interest loans at lower conditions. Thanks to lower interest rate hedging costs, income from interest business with banks was significantly higher than in the previous year.

Allowances totalling net CHF 3.2 million for credit loss expense were released by the LLB Group in favour of the income statement in the first half of 2018 (first half of 2017: allocation of CHF 3.1 million).

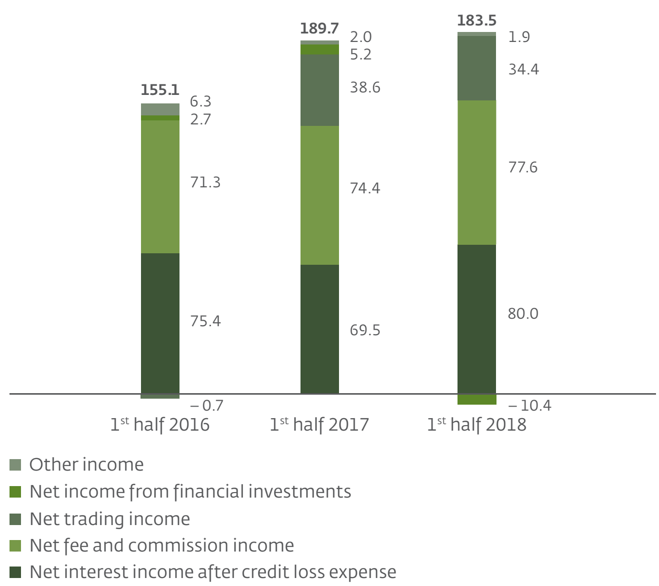
Net fee and commission income increased by 4.3 percent or CHF 3.2 million to CHF 77.6 million (first half of 2017: CHF 74.4 million). Intensive sales and marketing measures, for example, as undertaken with our recently launched LLB Invest products, contributed to this success. The takeover of LLB Swiss Investment AG also generated higher earnings from investment fund administration. Net brokerage income declined by 7.4 percent in comparison with the previous year, due to lower stock market activity by clients.

Net trading income stood at CHF 34.4 million in the first half of 2018 (first half of 2017: CHF 38.6 million). Trading in foreign exchange, foreign notes and precious metals expanded substantially in comparison with the previous year by 7.4 percent to CHF 28.9 million. This was attributable to the LLB's treasury performance. The reporting date valuation of interest rate hedging instruments totalled CHF 5.5 million in the first half of 2018 (first half of 2017: CHF 11.5 million). The fall in valuation was attributable to the development of CHF interest rates, which rose more strongly in the first half of 2017 than in the first half of 2018.

A negative market development as well as higher USD interest rates caused book losses of CHF 10.4 million on the reporting date with financial investments measured at fair value through profit and loss compared with a gain of CHF 5.2 million in the first half of 2017. Income from dividends remained unchanged compared with the previous year.

At CHF 1.9 million, other income remained the same in comparison with the previous year.

Operating income (in CHF millions)



Operating expenses increased in the first half of 2018 by 10.6 percent to CHF 128.3 million (first half of 2017: CHF 116.0 million).

At CHF 81.5 million, personnel expenses were 6.0 percent or CHF 4.6 million up on the previous year (first half of 2017: CHF 76.9 million). The increase was attributable to the strategic expansion of human resources as well as the takeover of LLB Swiss Investment AG.

General and administrative expenses rose by 27.8 percent or CHF 7.0 million to CHF 32.1 million (first half of 2017: CHF 25.1 million). The previous year's result was attributable to the writing back of provisions for legal and litigation risks amounting to CHF 5.0 million. Without this effect, general and administrative expenses would have risen by CHF 2.0 million in comparison with the previous year, largely as a result of integration costs.

Depreciation and amortisation increased slightly to CHF 14.7 million (first half of 2017: CHF 14.0 million).

The Cost-Income-Ratio stood at 71.2 percent (first half of 2017: 62.8 %). Without the market effects, i.e. without income from interest rate swaps and price gains from financial investments, the Cost-Income-Ratio stood at 69.2 percent (first half of 2017: 68.5 %).

Balance sheet

In comparison with 31 December 2017, the consolidated balance sheet total increased by 5.3 percent and amounted to CHF 21.1 billion as at 30 June 2018 (31.12.2017: CHF 20.0 billion). Loans to customers rose in total by 2.6 percent in comparison with 31 December 2017. Mortgage loans alone increased by 2.1 percent to CHF 10.8 billion.

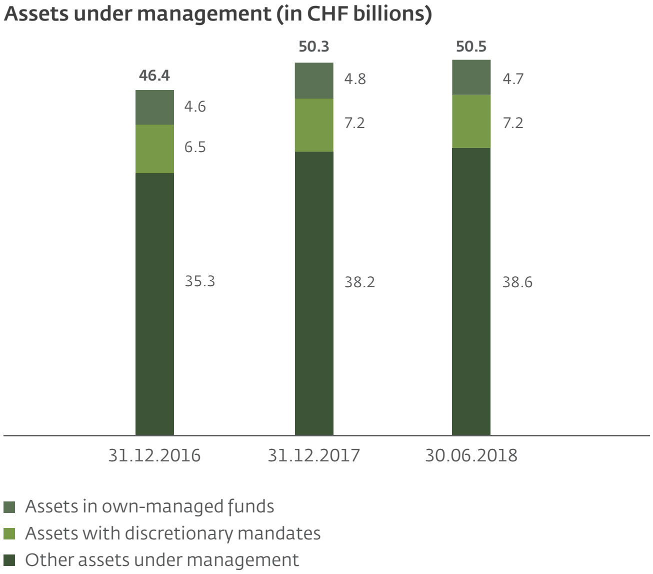
Equity attributable to the shareholders of LLB stood at CHF 1.8 billion as at 30 June 2018. The tier 1 ratio amounted to 21.6 percent (31.12.2017: 22.2 %). The return on equity attributable to the shareholders of LLB was 4.8 percent (first half of 2017: 6.7 %).

Assets under management

The LLB Group is continuing its robust growth. Thanks to intensive sales and marketing efforts in all three market segments and all booking centres, it achieved a net new money inflow of CHF 1'119 million in the first half of 2018 (first half of 2017: CHF 731 million).

Due to gratifying net money inflows, which more than compensated for the negative performance on the financial markets, client assets under management reached CHF 50.5 billion (31.12.2017: CHF 50.3 billion).

Assets under management (in CHF billions)



Outlook

In the second half of 2018, the LLB Group will continue to drive ahead with the consistent implementation of its StepUp2020 strategy. Its main priority will be the integration of the acquisitions. In addition, a primary focus will be placed on profitability and cost management. The Group will continue to invest in innovative products and services, drive forward with the digitalisation of banking business, and generate new growth impulses with its lean management culture.

Thanks to our focused business model, diversified earnings structure and clear StepUp2020 strategy, we are well prepared to meet and master the forthcoming opportunities and challenges. On the earnings side, we expect to make further operative progress, especially in fee and commissions business. In addition to making a contribution to the Group's business result, the integration of Semper Constantia will also involve integration costs, resulting in an effect of around minus CHF 5 million on the Group net profit. We are confident that we can again achieve a solid business result for the 2018 business year.

Consolidated income statement
(unaudited)

in CHF thousands	Note	First half 2018	First half 2017	+ / − %
Interest income from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income	1	99'244	94'791	4.7
Interest income from financial instruments at fair value through profit and loss	1	8'465	9'162	−7.6
Interest expenses from financial instruments measured at amortised cost and recognised at fair value through other comprehensive income	1	−20'374	−18'427	10.6
Interest expenses at fair value through profit and loss	1	−10'558	−12'896	−18.1
Net interest income	**1**	**76'777**	**72'630**	**5.7**
Credit loss (expense) / recovery		3'192	−3'104	
Net interest income after credit loss (expense) / recovery		**79'969**	**69'526**	**15.0**
Fee and commission income	2	101'322	87'779	15.4
Fee and commission expenses	2	−23'688	−13'332	77.7
Net fee and commission income	**2**	**77'634**	**74'448**	**4.3**
Net trading income	3	34'385	38'558	−10.8
Net income from financial investments at fair value	4	−10'370	5'178	
Share of net income of joint venture		−2	−1	136.7
Other income	5	1'918	1'962	−2.3
Total operating income		**183'534**	**189'672**	**−3.2**
Personnel expenses	6	−81'490	−76'867	6.0
General and administrative expenses	7	−32'128	−25'147	27.8
Depreciation and amortisation		−14'717	−13'989	5.2
Total operating expenses		**−128'335**	**−116'004**	**10.6**
Operating profit before tax		**55'200**	**73'668**	**−25.1**
Tax expenses	8	−9'398	−13'678	−31.3
Net profit		**45'802**	**59'990**	**−23.7**
Of which attributable to:				
Shareholders of LLB		42'146	57'292	−26.4
Non-controlling interests		3'656	2'697	35.6
Earnings per share attributable to the shareholders of LLB				
Basic earnings per share (in CHF)	9	1.46	1.98	−26.6
Diluted earnings per share (in CHF)	9	1.46	1.98	−26.6

Consolidated statement of comprehensive income (unaudited)

in CHF thousands	Note	First half 2018	First half 2017	+ / − %
Net profit		45'802	59'990	− 23.7
Other comprehensive income (net of tax), which can be reclassified to the income statement				
Foreign currency translation		− 624	892	
Value changes to financial investments available for sale			2'798	
Reclassified (gains) / losses to the income statement from financial investments available for sale	4		− 5'181	
Changes in value of debt instruments, recognised at fair value through other comprehensive income		1'318		
Reclassified (profit) / loss with debt instruments, recognised at fair value through other comprehensive income	4	240		
Tax effects		− 190	65	
Total other comprehensive income (net of tax), which can be reclassified to the income statement		**743**	**− 1'426**	
Other comprehensive income (net of tax), which cannot be reclassified to the income statement				
Actuarial gains / (losses) of pension plans		10'582	7'275	45.5
Changes in value of equity instruments, recognised at fair value through other comprehensive income		505		
Tax effects		− 1'546	− 799	93.5
Total other comprehensive income (net of tax), which cannot be reclassified to the income statement		**9'540**	**6'476**	**47.3**
Comprehensive income for the period		**56'086**	**65'039**	**− 13.8**
Of which attributable to:				
Shareholders of LLB		51'465	62'252	− 17.3
Non-controlling interests		4'621	2'787	65.8

Consolidated balance sheet
(unaudited)

in CHF thousands	Note	30.06.2018	31.12.2017	+/−%
Assets				
Cash and balances with central banks		4'229'939	4'129'723	2.4
Due from banks		2'232'385	1'940'433	15.0
Loans		12'395'508	12'083'966	2.6
Trading portfolio assets		33	62	−47.0
Derivative financial instruments		72'170	58'740	22.9
Financial investments at fair value	10	1'707'045	1'460'073	16.9
Non-current assets held for sale	14	3'504	6'734	
Investment in joint venture		31	33	−5.4
Property and equipment		127'247	125'077	1.7
Investment property		15'000	15'000	0.0
Goodwill and other intangible assets		134'852	112'896	19.4
Current tax assets		1'574	890	76.8
Deferred tax assets		12'082	12'642	−4.4
Accrued income and prepaid expenses		48'743	39'395	23.7
Other assets		101'496	31'814	219.0
Total assets		**21'081'607**	**20'017'478**	**5.3**
Liabilities				
Due to banks		1'436'968	943'316	52.3
Due to customers		16'175'315	15'652'158	3.3
Derivative financial instruments		121'238	117'448	3.2
Debt issued	11	1'199'542	1'169'027	2.6
Current tax liabilities		22'874	17'078	33.9
Deferred tax liabilities		17'576	14'472	21.4
Accrued expenses and deferred income		36'836	30'250	21.8
Provisions	12	26'990	28'128	−4.0
Other liabilities		173'087	162'619	6.4
Total liabilities		**19'210'427**	**18'134'496**	**5.9**
Equity				
Share capital		154'000	154'000	0.0
Share premium		21'412	23'509	−8.9
Treasury shares		−158'265	−163'886	−3.4
Retained earnings		1'779'812	1'815'454	−2.0
Other reserves		−43'810	−62'371	−29.8
Total equity attributable to shareholders of LLB		**1'753'150**	**1'766'706**	**−0.8**
Non-controlling interests		118'030	116'276	1.5
Total equity		**1'871'180**	**1'882'982**	**−0.6**
Total liabilities and equity		**21'081'607**	**20'017'478**	**5.3**

Consolidated statement of changes in equity (unaudited)

	attributable to shareholders of LLB							
in CHF thousands	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2017	154'000	24'968	–167'045	1'758'816	–74'511	1'696'228	110'146	1'806'374
Net profit				57'292		57'292	2'697	59'990
Other comprehensive income					4'959	4'959	90	5'049
Net movements in treasury shares		–1'458	3'159			1'701		1'701
Dividend 2016, paid 2017				–49'091		–49'091	–1'623	–50'714
Increase / (Reduction) in non-controlling interests				–10	0	–10	10	0
As at 30 June 2017	**154'000**	**23'509**	**–163'886**	**1'767'006**	**–69'552**	**1'711'078**	**111'320**	**1'822'398**
As at 31 December 2017	154'000	23'509	–163'886	1'815'454	–62'371	1'766'706	116'276	1'882'982
Reclassification of equity instruments from FVTPL to FVOCI (from first application of IFRS 9)				–9'242	9'242	0		0
Revalution: ECL allowance (from first application of IFRS 9)				–10'650		–10'650	–1'052	–11'702
As at 1 January 2018	154'000	23'509	–163'886	1'795'561	–53'129	1'756'055	115'224	1'871'279
Net profit				42'146		42'146	3'656	45'802
Other comprehensive income					9'319	9'319	965	10'284
Net movements in treasury shares		–2'097	5'621			3'524		3'524
Dividend 2017, paid 2018				–57'883		–57'883	–1'826	–59'710
Increase / (Reduction) in non-controlling interests				–11		–11	11	0
As at 30 June 2018	**154'000**	**21'412**	**–158'265***	**1'779'812**	**–43'810**	**1'753'150**	**118'030**	**1'871'180**

* For the purchase of Semper Constantia Privatbank AG with registered office in Vienna 1.85 million treasury shares are transferred to the owners on 4 July 2018.

Consolidated statement of cash flows
(unaudited)

in CHF thousands	Note	First half 2018	First half 2017
Cash flow from / (used in) operating activities			
Interest received (excluding financial investments)		110'075	98'046
Interest received from financial investments at fair value		5'970	7'098
Dividends received from financial investments at fair value	4	500	459
Interest paid		−28'837	−13'979
Fees and commission received		97'086	88'482
Fees and commission paid		−17'364	−14'382
Trading income		27'460	25'523
Other income		1'641	3'060
Payments for personnel, general and administrative expenses		−125'392	−125'388
Income tax paid		−2'374	−2'447
Cash flow from operating activities, before changes in operating assets and liabilities		68'765	66'473
Net due from / to banks		−4'869	914'554
Trading portfolio assets including net replacement values		−4'102	7'595
Loans / due to customers		192'160	78'961
Other assets		−69'822	−16'984
Other liabilities		22'271	−10'313
Changes in operating assets and liabilities		135'638	973'812
Net cash flow from / (used in) operating activities		**204'403**	**1'040'285**

Cash flow from / (used in) investing activities			
Purchase of property and equipment		−12'259	−10'190
Disposal of property and equipment		3'848	107
Purchase of other intangible assets		−29'771	−2'231
Purchase of financial investments at fair value		−468'563	−105'040
Disposal of financial investments at fair value		220'795	193'051
Acquisition of fully consolidated companies minus cash and cash equivalents		−16'456	0
Net cash flow from / (used in) investing activities		**−302'406**	**75'697**

in CHF thousands	Note	First half 2018	First half 2017
Cash flow from / (used in) financing activities			
Disposal of treasury shares		5'621	3'159
Dividends paid		−57'883	−49'091
Dividends paid to non-controlling interests		−1'826	−1'623
Issuance of debt		90'707	70'638
Repayment of debt		−60'019	−59'797
Net cash flow from / (used in) financing activities		**−23'400**	**−36'714**
Effects of foreign currency translation		−1'419	−5'726
Net increase / (decrease) in cash and cash equivalents		**−122'821**	**1'073'541**
Cash and cash equivalents at beginning of the period		4'819'533	3'951'982
Cash and cash equivalents at end of the period		**4'696'712**	**5'025'523**
Cash and cash equivalents comprise:			
Cash and balances with central banks		4'229'939	4'418'691
Due from banks (due daily)		466'774	606'832
Total cash and cash equivalents		**4'696'712**	**5'025'523**

The following table shows changes in financial liabilities arising from financing activities, including separation into cash and non-cash changes.

			Non-cash changes				
in CHF thousands	31.12.2017	Cash changes	Changes in scope of consoli-dation	Changes in ex-change rates	Changes in fair value	Other changes	30.06.2018
Issuance / (Repayment) of medium-term notes	286'014	−45'812	0	−7	0	−228	239'967
Issuance / (Repayment) of shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	883'014	76'500	0	0	0	62	959'575
Total liabilities from financing activities	**1'169'027**	**30'688**	**0**	**−7**	**0**	**−166**	**1'199'542**

Accounting principles (unaudited)

1 Basis for financial accounting

1.1 Basis for financial accounting

The interim financial reporting was prepared in accordance with the International Financial Reporting Standards (IFRS) and complies with the requirements of IAS 34 “Interim Financial Reporting”. The significant accounting and valuation methods employed in the preparation of the unaudited interim financial reporting correspond to those used in the 2017 annual report. In addition, the regulations valid since 1 January 2018 have been applied.

The unaudited interim financial reporting does not encompass all the data contained in the audited 2017 consolidated financial statement and should, therefore, be read together with the audited consolidated financial statement as at 31 December 2017. The interim financial reporting was compiled in fulfilment of obligations under stock exchange law and, in addition, is provided for information purposes.

On account of detailed definitions in its presentation, the interim financial reporting can contain reclassifications. These have no effect on the business result. No further details of reclassifications are provided because the only adjustments concern the type of presentation.

1.2 Estimates made in the preparation of the interim financial reporting

In preparing the interim financial reporting in conformity with IFRS, management is required to make estimates and assumptions. These contain statements concerning the future, which provide no guarantee whatsoever about future developments. These statements include, but are not limited to, risks and uncertainties concerning future global business conditions, foreign exchange rates, regulatory provisions, market conditions, the activities of competitors, as well as other factors beyond the control of the company. This may have an impact on individual income and expense positions, on assets and liabilities, as well as on the disclosure of contingent assets and liabilities. Use of information available to the LLB on the balance sheet date and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences could be material to the financial statements. The LLB is under no obligation to update the forward-looking statements made in this interim financial reporting. The IFRS contain guidelines, which require the LLB Group to make estimates and assumptions when preparing the interim financial reporting. Allowances for credit loss expense, goodwill, intangible assets, provisions for legal and litigation risks, fair value criteria for financial instruments and pension schemes are areas with a wide scope of discretion, with which estimates and assumptions could be of vital importance for the financial reporting. Explanations regarding this point are shown under note 12 and note 13 in the 2018 consolidated interim financial reporting and under note 13, note 19, note 26, note 34 and note 41 of the 2017 consolidated financial statement.

The LLB Group periodically reviews the actuarial assumptions and parameters used for the calculation of pension obligations. The actuarial assumptions and parameters used for the calculation of pension obligations in the 2017 annual financial statement were adjusted accordingly in the 2018 interim financial reporting.

1.3 Amended and new IFRS standards and their effects

New IFRS standards, as well as revisions and interpretations of existing IFRS standards, which must be applied for financial years beginning on 1 January 2018 or later, were published or in some cases came into effect.

The new standards IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”, which are dealt with in more detail in a separate section, as well as the amendments to IAS 1 “Presentation of Financial Statements” and IAS 40 “Investment Property” were designated as relevant for the LLB Group for the 2018 financial year. The application of the amendments to IFRS 15, IAS 1 and IAS 40 has no major effect on the financial reporting. In the case of both IFRS 9 and IFRS 15, the transition rulings enable a modified retroactive adjustment to be made. Effects arising from the transition to the new standard will be recognised in equity without affecting the income statement; no restatement of the comparison period will be made. The LLB Group has elected to adopt the simplified form for the initial application of these standards, i.e. the values for the prior comparison periods will be presented according to the old regulations. The transition from IAS 18 “Revenue” and the relevant interpretations of IFRS 15 do not result in a correction of equity because the balance sheet does not contain any positions that would be subject to the IFRS 15 regulations. Within the scope of the application of IFRS 9, the LLB Group decided in favour of the early implementation of the amendments to IFRS 9, which concern the right of early termination and which were published by the International Accounting Standards Board (IASB) in October 2017. The early application will have no material impact.

In comparison with the 2017 Annual Report, the International Accounting Standards Board (IASB) issued further regulations during the report period, which will be relevant for the LLB Group from 1 January 2019 or later. These encompass the Conceptual Framework and the amendments to IAS 19 “Employee Benefits”.

If new or amended IFRS standards or interpretations, which are relevant for the LLB Group, have already been described in the 2017 Annual Report, only significant, new information compared with 31 December 2017 is provided here.

- IFRS 16 “Leasing” – In the first quarter of 2018 a project was started with the aim of ensuring an application of the standard in conformance with IFRS. In spite of the fact that currently there are only a few leasing contracts, which would convey the right to use an asset and lead to a leasing obligation, it was decided to install software for the proper presentation of these positions on the balance sheet. Approval and release of the software is planned for the third quarter of 2018. Accordingly, in the fourth quarter all leasing contracts that fulfil the accounting criteria for a leasing contract and that currently represent operating leases will be recognised from 1 January 2019. Leasing contracts exist in the form of leases for office premises and properties. As a result of the takeover of the Semper Constantia Group from 4 July 2018, vehicle leasing contracts will be added to the existing portfolio. The simplified approach can serve as a transition method, meaning that no comparatives need to be restated. The effects of introducing the new standard on impairment of key figures is regarded as not being material.

- IAS 19 "Employee Benefits" – The amendments to IAS 19 were introduced to eliminate differences in accounting practices. Previously, rulings existed for how changes to contribution and benefit payments were to be considered for the calculation of net debt and net interest, but not however what procedure was to be adopted if amendments, curtailments, or settlements to defined benefit plans occurred during the report period. From now on it is stipulated that when an amendment, curtailment or settlement of a defined benefit plan occurs, the current service cost and the net interest for the period after the remeasurement are to be determined using the assumptions used for the remeasurement. In a first step, the effects of a plan amendment, curtailment or settlement are to be recognised without considering any possible effects in relation to the asset ceiling. The determination and possible adjustment of the asset ceiling will only follow in a second step. The amendments are valid for financial years beginning from 1 January 2019 and are to be applied prospectively. At the present time, the amendments are not regarded as being material for the LLB Group.
- Conceptual Framework – A new Conceptual Framework was published in March 2018. This aims to support the IASB both in developing new standards on the basis of uniform concepts and to help the persons preparing financial statements to formulate new accounting policies. In addition, it should assist all users to understand and interpret IFRS. The Framework is not a standard and does not override any specific regulation in the standards. The Framework is to be applied for financial years beginning on or after 1 January 2020. An earlier adoption is possible but the LLB Group will probably not choose to adopt this in advance. The possible effects are currently being analysed.

1.4 Initial application of IFRS 9

The LLB Group has applied IFRS since 1 January 2018 . IFRS 9 is structured in three phases by the IASB: "Classification and Measurement", "Impairment" and "Hedge Accounting". The following information relates only to classification and measurement as well as impairment. Under IFRS 9, macro-hedge accounting on the portfolio level, which the LLB Group currently applies, has not so far been regulated. Therefore, the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" continue to apply.

1.4.1 Classification and measurement

Under IFRS 9, there are three methods of measuring financial assets. How a financial asset is measured depends on the business model employed by the company and the cash flow characteristics of the financial asset.

Classification and measurement under IFRS 9

- Amortised Cost (AC) – In order for financial assets to be measured at amortised cost, a company must adopt a business model aimed at the collection of contractual cash flows ("Hold" business model). The cash flows are collected at specified time points and consist solely of payments of principal and interest (SPPI). Under this business model only very restricted sales are possible, and only when certain conditions are fulfilled.
- Fair Value through Other Comprehensive Income (FVOCI) – Financial assets are classified and measured at FVOCI if they are held in a business model whose objective is attained by both the collecting of contractual cash flows and the sale of financial assets ("Hold to Collect and Sell" business model). The cash flows are collected at specified times and consist solely of payments of principal and interest (SPPI). By adopting a business model of this type, the LLB Group brings into line various objectives such as managing daily liquidity requirements, ensuring a specific interest yield profile or matching the duration of financial assets with the duration of the liabilities that those assets are funding.
- Fair Value through Profit and Loss (FVTPL) – Assets that do not meet the criteria for AC or FVOCI are measured at fair value through profit and loss ("Others" business model). Furthermore, measurement at FVTPL is basically carried out in combination with the "Trading" business model. The aim of this business model is generally active buying and selling. The collection of contractual cash flows is not integral to, but rather of secondary importance for the fulfilment of this business model's objective.

It is always possible to designate a financial asset irreversibly at inception if there is an accounting mismatch and this can thereby be eliminated. In the case of debt instruments, the possibility exists of assigning them an FVTPL designation. Equity instruments are measured at FVTPL, provided they have not been given a FVOCI designation. The consequence of the latter is that in the event of the instruments being sold, no reclassifying of accrued unrealised income in other comprehensive income (OCI) is possible.

Basically, financial liabilities are classified at amortised cost, unless one of the exceptions mentioned in IFRS 9.4.2. applies, or the right to choose measurement at FVTPL is used.

The effects of the transition from IAS 39 to IFRS 9 on the classification of financial assets and financial liabilities

At the LLB Group, the application of IFRS 9 only has an impact on financial assets that are contained in the balance sheet position "Financial investments". For the LLB Group this is the only position where, as a result of broad discretionary scope and estimates in relation to the business model and the SPPI ability, the measurement under IFRS 9 can differ from that under IAS 39. For all the other balance sheet positions, for which IFRS 9 is applicable, the classification under IFRS 9 is identical to that under IAS 39.

Application of the business models

The management of the LLB Group specifies the strategy, and therefore the related business model, for all the Group companies. Two business models come into question for the financial assets that were contained in the Group's portfolio at the time of transition, i.e. the "Hold to Collect and Sell" and the "Others" business models. In addition, equities that fulfilled the definition criteria of equity instruments were irreversibly designated as FVOCI. The decision regarding the allocation to a business model or designation was made at the product level.

Debt instruments – Under IAS 39 these instruments were recognised both at fair value through profit and loss, as well as available for sale (AFS). Those debt instruments that were measured at fair value through profit and loss under IAS 39 were assigned to the "Others" business model. The debt instruments that were measured as available for sale under IAS 39 were allocated to the "Hold to Collect and Sell" business model. The primary aim of this allocation of debt instruments is the management of liquidity requirements. From 1 January 2018, all new debt instruments will be assigned to the "Hold to Collect and Sell" business model.

Equity instruments – Under IAS 39 equity instruments were measured at fair value through profit and loss. These included equity instruments with an infrastructure character and investment funds that were classified as equity. With the transition from IAS 39 to IFRS 9 equity instruments with an infrastructure character have been designated at FVOCI. Investment funds continue to be measured at FVTPL because they do not meet the criteria for SPPI cash flows but are now reported under debt instruments.

Assessment of the SPPI

The assessment of whether financial assets conform to SPPI criteria is a critical judgement. The SPPI test is particularly relevant in the case of complex products. Within the LLB Group, the assessment is decisive for the classification of debt instruments because the SPPI condition is a co-factor in deciding how a debt instrument is to be measured. The assessment of every debt instrument is made internally prior to the classification. The internal assessment is checked against a downstream external Bloomberg assessment.

Comparison of assessments under IAS 39 and IFRS 9
The adjacent table summarises the statements made and compares the measurements under IAS 39 and IFRS 9:

	Measurement under IAS 39	Measurement under IFRS 9
Assets		
Cash and balances with central banks	Amortised cost	Amortised cost
Due from banks	Amortised cost	Amortised cost
Loans	Amortised cost	Amortised cost
Trading portfolio assets	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial investments at fair value		
Debt instruments	FVTPL	FVTPL
Debt instruments	Available for sale	FVOCI
Equity instruments	FVTPL	FVOCI
Accrued income and prepaid expenses	Amortised cost	Amortised cost
Liabilities		
Due to banks	Amortised cost	Amortised cost
Due to customers	Amortised cost	Amortised cost
Derivative financial instruments	FVTPL	FVTPL
Debt issued	Amortised cost	Amortised cost
Accrued expenses and deferred income	Amortised cost	Amortised cost

A transition of the carrying values is shown in Chapter 1.4.3 Quantitative disclosure.

Measurement of financial assets
Initial recognition is basically made at fair value and, in the case of financial assets that are not recognised at fair value, with the addition of transaction cost. This corresponds to a valuation at effective cost. Subsequent measurement may differ depending on which classification an asset has or whether a designation has been made.

In line with the simplified transition to IFRS 9, in the comparison year the measurement basis is shown according to IAS 39. This can be seen in the 2017 Annual Report.

- Financial assets at fair value through profit and loss – Financial assets are measured at fair value. Non-realised gains or losses are recognised at fair value through profit and loss in income from financial investments. The fair value of listed shares is measured on the basis of the current offer price. If there is no active market for a financial asset, or the asset is not listed on an exchange, the fair value is determined using suitable valuation methods. These encompass reference to recent transactions between independent business partners; the application of the current market prices of other assets, which are essentially similar to the assets being valued; the discounted cash flow procedure; external pricing models, which take into account the special circumstances of the issuer. See also note 13. Interest earnings from financial investments are recognised at fair value in net interest income, and income from dividends is recognised at fair value in income from financial investments. Interest is recognised on an accrual basis.
- Financial assets recognised at fair value through other comprehensive income (FVOCI) – Measurement differs depending on whether the positions are debt or equity instruments. Debt instruments are measured at amortised cost, whereby the effective interest rate method is applied minus any expected credit losses. Thereafter the value at amortised cost is adjusted to correspond to fair value. The fair value of these financial assets is measured on the basis of listed shares. If there is no active market, or if the assets are not listed on an exchange, the fair value is determined using suitable valuation methods similar to those used for assets measured at fair value through profit and loss. See also note 13. Possible gains or losses arising from value fluctuations are recognised in other comprehensive income. Interest on debt instruments is recognised on an accrual basis and reported using the effective interest method under interest income. Upon disposal of the debt instrument, the unrealised gains or losses reported in the statement of comprehensive income are reclassified in the income statement. Equity instruments are recognised at fair value. Changes in value, gains or losses are reported in other comprehensive income. The fair value of these financial assets is measured in exactly the same manner as with debt instruments. Dividend earnings are recognised in the income statement. Upon disposal of the equity instrument, the unrealised gains or losses reported in the statement of comprehensive income are not reclassified in the income statement. These are reclassified in retained earnings without affecting the income statement.

1.4.2 Impairment

The impairment regulations contained in IFRS 9, which are to be applied from 1 January 2018, are based on the expected credit loss model (ECL model) and supersede the incurred loss model (ICR model) stipulated in IAS 39. For all positions that are exposed to a credit loss risk and not recognised at fair value through profit and loss, in accordance with IFRS 9, an expected credit loss is to be calculated and recognised. Against the backdrop of IFRS 9, the LLB Group developed and implemented an impairment model in order to quantify expected credit losses. An expected credit loss is recognised initially in equity (retained earnings) without affecting the income statement.

Governance with respect to input factors, assumptions and estimation procedures

The impairment model for the determination of the expected loss requires a range of input factors, assumptions and estimation procedures that are specific to the individual institute. This in turn necessitates the establishment of a governance process. The Group Credit Risk Committee is responsible for the regular review, stipulation and approval of input factors, assumptions and estimation procedures, which must be carried out at least once a year. In addition, internal control systems at the LLB Group ensure the correct quantification of the expected loss as well as the conformance with IFRS.

Segmentation of the credit portfolio

The LLB Group segments its credit portfolio according to two criteria: by type of credit and by customer segment. The following types of credit are considered for the modelling of PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) calculation parameters:

- Mortgage loans
- Lombard loans
- Unsecured loans
- Financial guarantees
- Credit cards
- Bank deposits, secured
- Bank deposits, unsecured
- Financial investments
- SIC (Swiss National Bank)

In the case of the first five listed types of credit, a further differentiation is made between the customer segments: private clients, corporate clients and public sector debtors. Consequently, 19 segments were formed differing from each other in the modelling of the calculation parameters, to enable the LLB Group's credit portfolio to be segregated into risk groups that are as homogenous as possible.

Modelling principles and calculation parameters of expected credit loss

The calculation of the expected credit loss is based on the components: probability of default, (PD), exposure at default (EAD) and loss given default (LGD), whereby specific scenarios are used to determine these criteria. The most important differences in the modelling of the calculation parameters are shown in the following.

- PD: The probability of default is determined differently depending on the segment. In the case of corporate clients, the ratings are based on an external scoring model where the financial statements of the corporate clients serve as a basis for the calculation of the respective ratings and probability of default. With bank and financial deposits, the ratings and probability of default are obtained from external sources (Moody's). Basically, the probability of default is calculated at the position level. One exception is the private clients segment, where a global probability of default is applied for the entire client segment. In determining the portfolio probability of default, the only differentiation made is between the above-mentioned credit segments. Here the probability of default is based on internal historical default rates. A common factor with all the ratings is that the probability of default in all cases is determined on a through-the-cycle (TTC) basis, which is adjusted within the scope of micro-scenarios to take into consideration the expected economic conditions (point in time, PIT). For this purpose, in the case of private and corporate clients, the LLB Group estimates the development of interest rates as well as of gross domestic product, and models the impact of the expected economic development on the probability of default. In the case of bank and financial deposits with ratings from Moody's, the rating agency's outlook for the expected future development of the ratings is taken into consideration.
- EAD: Exposure at default is determined on the basis of the average amortised cost in the individual monthly period. The development of amortised cost is calculated on the basis of the initial credit exposure compounded with the effective interest, plus or minus additional inflows or outflows of resources such as amortisation payments. The average amortised cost of the individual periods is extrapolated from the overall development through integration and then division by the duration of the periods. The term of the loans is defined in the individual credit agreements. In the case of loans with an unspecified term, a model is used to ascertain the term. The period of notice is used as a basis for the calculation. Cash inflows (loan repayments) are defined on the basis of the planned amortisation payments. Cash outflows (loan increases) are dependent on the type of loan and the agreed-but-not-yet-utilised credit limit. Internal experts estimate a credit conversion factor, which is then employed to define the expected credit utilisation.
- LGD: Basically, there are three approaches for determining the loss given default (LGD): internal loss given default models (loans with real estate collateral), estimates made by internal experts (Lombard loans) and external studies from Moody's (bank and financial

deposits). In the case of loss given default models, the LGD of loans secured by mortgages is calculated on the basis of work-out procedures at the position level, taking into consideration the collateral provided. In this case, all the expected future cash flows are estimated and discounted. In addition, the value of the collateral provided is modelled on the basis of the expected development of real estate prices given various scenarios.

The expected credit loss is calculated as the sum of PD, EAD and LGD.

The form of the calculation is determined by the credit quality.

- Credit quality stage 1: No significant increase in the credit risk since initial recognition; the expected credit loss is calculated over one year.
- Credit quality stage 2: Significant increase in the credit risk since initial recognition; the expected credit loss is calculated over the remaining term of the loan.
- Credit quality stage 3: Default in accordance with the capital requirements regulation (CRR Art. 178); in the case of defaulted positions a specific value allowance is determined and recognised by the Group Recovery Department. The expected credit loss is calculated over the remaining term of the loan.

The assignment to a credit quality stage has a significant influence on the magnitude of the expected credit loss because in the case of stage 2 and stage 3 positions this can be substantially higher than with stage 1 positions, depending on the remaining term of the loan.

Credit quality stage, monitoring of significant increase in credit risk (SICR) and cure period

Loans are assigned to a credit quality stage. In addition to historical analysis, forward-looking factors are taken into consideration.

Historical analysis at the LLB Group considers, for example, whether the credit risk with a position has significantly increased since the beginning of the contractual term, or whether there are already payment arrears. Payments more than 30 days past due are assigned to credit quality stage 2; payments more than 90 days past due are assigned to credit quality stage 3. In the event of an increase of one percentage point in the default probability, the LLB Group assumes there will be a significant increase in the credit risk and accordingly calculates the expected credit loss for such positions over the remaining term of the loan.

In a forward-looking test, based on the development of a customer's cash flows, it is examined whether a deterioration in the creditworthiness of the customer is to be expected in the future. Furthermore, in the case of bank and financial deposits, for example, the expectations of rating agencies with respect to the future development of the ratings are considered in the assignment of a credit quality stage for a loan.

Loans in credit quality stage 2 are only reassigned to credit quality stage 1 following a sustained improvement in their credit quality. The LLB Group defines a sustained improvement in credit quality as being the fulfilment of the criteria for credit quality stage 1 for at least three months.

In the case of loans in credit quality stage 3, the Group Recovery Department is responsible for estimating the extent of a sustained improvement in credit quality. The decision is largely guided by whether the default, as defined by the LLB Group, still exists or not. Here too, in order for a position to be returned to credit quality stage 2, the criteria governing the credit quality stage must have been fulfilled for at least 3 months.

Upon initial recognition, all risky positions are assigned to stage 1 because no financial assets having a negative effect on credit quality are purchased or generated.

Macro-scenarios

Three scenarios are utilised for the measurement of the expected credit loss: a basic scenario as well as a negative and a positive scenario. The probability of a credit loss occurring is the same with all three scenarios. The average value derived from these three scenarios represents the final expected credit loss.

In determining the expected credit loss on the basis of the various scenarios, the LLB Group utilises the following three macro-factors, which have an influence on the creditworthiness of a debtor as well as on the value of the collateral provided for the loan:

- Gross domestic product
- Interest rate development
- Real estate price development

The impact of the macro-factors is based on estimates made by the Asset Management Division of LLB AG and the Risk Management Department of the LLB Group, whereby the macro-factors are also regularly submitted to the Group Credit Risk Committee for its approval.

Definition of default, determination of creditworthiness and write-off policy

Under IFRS 9, the LLB Group bases its definition of default on the capital requirements regulation (CRR) Art. 178 in order to ensure a uniform definition for regulatory and accounting policy purposes. On the one hand, claims which are more than 90 days past due are regarded as defaulted and, on the other, indications that a debtor is unlikely to pay its credit obligations can also lead to a loan being classified as in default.

The LLB Group regards a financial asset as being impaired when its recoverable value, which is determined on the basis of a calculation of the present value, is lower than the carrying value. The difference between the present value and the carrying value is recognised as a specific value allowance.

A cautious write-off policy is pursued with impaired assets because if a debt is waived it can no longer be recovered. A debt is written off only when there is no reasonable expectation of recovery in the future, a pledge default certificate has been submitted, which enables, in spite of the write-off, the remaining debt or a part of the remaining debt to be claimed, and where agreement has been reached with the debtor that the LLB or a subsidiary within the LLB Group irrevocably waives a part of the debt.

Modification of contracts

The control process for managing credit quality stages was described in "Credit quality stage, monitoring of significant increase in credit risk (SICR) and cure period". A modification of the contractual terms implies a change in the existing risk estimate of a financial asset and therefore has an influence on the classification of the financial asset within the impairment model. This becomes problematic if, on account of the modification of the contractual terms, a financial asset in credit quality stage 3 is classified as fundamentally different. The derecognition and re-entry of the financial asset means that it is automatically classified in credit quality stage 1. However, this does not conform to the financial asset's risk profile so that following the modification it is again transferred to credit quality stage 3. The control process is followed in the case of financial assets of credit quality stages 1 and 2.

1.4.3 Quantitative disclosure

The following tables bring together the qualitative statements on classification and measurement as well as impairment and show the transition of the year-end totals for balance sheet positions under IAS 39 to the year-opening totals under IFRS 9 for the individual measurement categories:

Transition of the carrying value of financial assets and financial liabilities from IAS 39 to IFRS 9

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Revaluation	Carrying amount IFRS 9 as at 01.01.2018
Amortised cost			
Assets			
Cash and balances with central banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'129'723		4'129'723
Due from banks			
Opening balance according to IAS 39	1'940'433		
Revaluation: ECL allowance		−120	
Closing balance according to IFRS 9			1'940'313
Loans			
Opening balance according to IAS 39	12'083'966		
Revaluation: ECL allowance		−10'679	
Closing balance according to IFRS 9			12'073'287
Accrued income and prepaid expenses			
Opening balance according to IAS 39 and closing balance according to IFRS 9	39'395		39'395
Total assets	**18'193'517**	**−10'799**	**18'182'718**
Liabilities			
Due to banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	943'316		943'316
Due to customers			
Opening balance according to IAS 39 and closing balance according to IFRS 9	15'652'158		15'652'158
Debt issued			
Opening balance according to IAS 39 and closing balance according to IFRS 9	1'169'027		1'169'027
Accrued expenses and deferred income			
Opening balance according to IAS 39 and closing balance according to IFRS 9	30'250		30'250
Total liabilities	**17'794'750**		**17'794'750**

The difference in the balance sheet positions resulting from the revaluation corresponds to the difference in the value allowance between IAS 39 and IFRS 9.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassi-fication	Transfer	Carrying amount IFRS 9 as at 01.01.2018
At fair value through profit and loss				
Assets				
Trading portfolio assets				
Opening balance according to IAS 39 and closing balance according to IFRS 9	62			62
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	58'740			58'740
Debt instruments				
Bonds				
Opening balance according to IAS 39 and closing balance according to IFRS 9	915'108			915'108
Fund units				
Opening balance according to IAS 39	0			
Transfer from equities FVTPL *			234'502	
Closing balance according to IFRS 9				234'502
Equity instruments				
Equity instruments with infrastructure character				
Opening balance according to IAS 39	23'449			
Reclassification: from FVTPL to FVOCI **		– 23'449		
Closing balance according to IFRS 9				0
Fund units				
Opening balance according to IAS 39	234'502			
Transfer to equity instruments FVTPL *			– 234'502	
Closing balance according to IFRS 9				0
Other equity instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'697			4'697
Total assets	**1'236'557**	**– 23'449**	**0**	**1'213'109**
Liabilities				
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	117'448			117'448
Total liabilities	**117'448**			**117'448**

* Under IAS 39 fund units were reported under equity instruments. Under IFRS 9 they are reported under debt instruments. Because cash flows do not conform to SPPI criteria, these positions are measured at fair value through profit and loss.
** The reclassification causes a reclassification within equity. The effects are disclosed in the statement of changes in equity.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassification	Carrying amount IFRS 9 as at 01.01.2018
At fair value through other comprehensive income			
Assets			
Debt instruments, available for sale			
Opening balance according to IAS 39	282'317		
Reclassification: from AFS to FVOCI		−282'317	
Closing balance according to IFRS 9			0
Debt instruments at fair value through other comprehensive income			
Opening balance according to IAS 39	0		
Reclassification: from AFS to FVOCI		282'317	
Closing balance according to IFRS 9			282'317
Equity instruments			
Equity instruments with infrastructure character			
Opening balance according to IAS 39	0		
Reclassification: from FVTPL to FVOCI *		23'449	
Closing balance according to IFRS 9			23'449
Total assets	**282'317**	**23'449**	**305'766**

* This causes a reclassification within equity. The effects are disclosed in the statement of changes in equity.

Transition of the value allowance for expected credit loss from IAS 39 / IAS 37 to IFRS 9

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Loans and receivables (IAS 39) / Amortised cost (IFRS 9)			
Due from banks	0	120	120
Loans	77'445	10'679	88'124
Total	**77'445**	**10'799**	**88'244**

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Available for sale (IAS 39) / FVOCI (IFRS 9)			
Debt instruments	0	41	41
Total	**0**	**41**	**41**

in CHF thousands	Provisions according to IAS 37 as at 31.12.2017	Revaluation	Provisions according to IFRS 9 as at 01.01.2018
Off-balance-sheet positions			
Credit cards	0	3	3
Financial guarantees	2'120	2'771	4'891
Total	**2'120**	**2'775**	**4'895**

In line with the changeover to IFRS 9, a reclassification of equity instruments with infrastructure character was made. These financial assets that were formerly recognised at fair value through profit and loss are now measured at fair value through other comprehensive income. Without the reclassification the operating income would have been CHF thousands 505 higher.

The following table shows the change in fair value:

in CHF thousands	
Reclassification carried out as at 1 January 2018: from FVTPL to FVOCI	
Equity instruments, recognised at fair value through profit and loss as at 31 December 2017	23'449
Fair value gain / (loss), which would have been recorded if no reclassification had been carried out	505
Fair value as at 30 June 2018	**23'954**

The following table shows the value allowance development for loans to customers in the first half of 2018:

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Valuation allowance as at 1 January 2018 according to IAS 39			−77'445	−77'445
Revaluation effect according to first application IFRS 9	−8'944	−1'735		−10'679
Valuation allowance as at 1 January 2018 according to IFRS 9	−8'944	−1'735	−77'445	−88'124
Transfers				0
from Stage 1 to Stage 2	−7	7		0
from Stage 2 to Stage 1	−190	190		0
from Stage 2 to Stage 3	0	409	−409	
from Stage 3 to Stage 2	0	−346	346	0
Additions due to issuing loans	−1'026	−8	−364	−1'398
Disposals due to redemption of loans / waiving of claims	1'869	−188	1'570	3'251
Changes in PD / LGD / EAD and maturity effect	994	407	0	1'401
Foreign currency influences	1	0	−240	−239
Valuation allowance as at 30 June 2018	**−7'302**	**−1'265**	**−76'542**	**−85'109**

The following table shows the statement of the development of loans to customers related to the value allowance:

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Gross carrying amount as at 1 January 2018 according to IAS 39	11'591'783	371'422	198'206	12'161'411
Transfers				
from Stage 1 to Stage 2	−33'297	33'297		0
from Stage 2 to Stage 1	138'829	−138'829		0
from Stage 2 to Stage 3		−1'490	1'490	0
from Stage 3 to Stage 2		1'112	−1'112	0
Additions due to issuing loans	2'800'781	18'125	2'245	2'821'151
Disposals due to redemption of loans / waiving of claims	−2'450'572	−43'486	−7'215	−2'501'273
Foreign currency influences	−748	0	75	−673
Gross carrying amount as at 30 June 2018	**12'046'777**	**240'151**	**193'689**	**12'480'617**

1.5 Initial application of IFRS 15

The LLB Group has applied IFRS 15 since 1 January 2018. The aim of the new standard is to enable the balance sheet reader to understand the type, scope, time point and uncertainty of the revenues and cash flows from contracts with customers. Here it has to be borne in mind that IFRS 15 only applies to revenues that are not related to financial instruments and other contractual rights or obligations that fall within the scope of IFRS 9 "Financial Instruments". With regard to the positions of the consolidated financial statement, this means that revenues relevant to IFRS 15 are recognised in fee and commission income and in other income.

The LLB earns revenues by providing various services. In accordance with IFRS 15, these revenues are recognised over a period or on a specific date when the power of disposal is transferred to the purchaser and when it is sufficiently certain that the revenues can also be collected in the amount recognised. In the case of variable revenues, this means that recognition may only take place once it has been ensured that at a time when there is no uncertainty, no significant cancellations of previously recognised revenues occurs.

Recognition of revenues over a specified period

Typical revenues earned from fees and services that are recognised over a period include, for example, fees for the provision of IT infrastructure to enable a client to carry out his transactions at home by online banking or via his smart phone when he is on the move, credit and debit card fees and fees from asset management.

In the case of services that are delivered over a period, the client also enjoys the benefit from the service over the period since the power of control is continually transferred with the provision of the service. Accordingly, the revenues obtained from the provision of the service are recognised over the period the service is provided. On account of the structure of the contracts at the LLB Group, a time period exists between the provision of the service and the payment by the client for it, which in general amounts to a maximum of one year. The payments made by clients are made on specific dates, usually at the end of a quarter.

The costs incurred in the provision of the service are recognised continually over the period because these are similar services that are required every day.

Recognition of revenues on a specific date

Typical revenues earned from fees and services that are recognised on a specific date include, for example, brokerage or processing fees for credit cards used abroad.

In the case of services that are delivered on a specific date, the power of control is transferred to the client. The resulting benefit for the client occurs once for the client on this date. Accordingly, the revenues obtained from the provision of the service are recognised once, i.e. in relation to this date.

In the case of services that are delivered over a period, but the payment for them is variable and a large degree of uncertainty exists concerning the amount of the revenues, the revenues are only recognised at that time when it is highly probable that no significant cancellation will occur with the recognised revenues. At the LLB Group, this situation can only arise in connection with performance fees.

The costs incurred in providing a service are generally recognised at the time point when the service is delivered. One exception is the costs in connection with performance fees because the service is continually provided over a period of time, but the attainment of specific objectives is uncertain due to external factors. Accordingly, in this case, the costs are not recognised at the same time as the revenue, but rather over the period the service is provided to achieve the objectives.

Recognition

The revenues recognised from fees and services are based on the service obligations specified in the contract and the payment to be made by the client for them. The payment may contain both fixed and variable components, whereby variable payments only occur in connection with asset management and are influenced by certain threshold values. The client may have to make an additional payment if, for example, a specified return is attained or he has decided to pay a previously stipulated percentage on his assets on a previously determined date as a fee. The recognition period basically amounts to a maximum of one year and the revenues are only to be recognised on the effective date. Only on this date will it be sufficiently clear that no significant cancellation of the revenues will occur.

Basically, the revenues are to be allocated to the individual service obligations. On account of the business model, this will not be possible for an immaterial part of the revenues because the client also has the option of paying an all-in fee for a range of different services. Apart from this case, the appropriate payments are separately disclosed for every type of service obligation.

If discounts have been granted within the scope of combinations of several products, these can be assigned to the individual service obligations.

2 Changes to the scope of consolidation

In the first half of 2018 changes occurred in the scope of consolidation. Retroactively from 1 January 2018, the companies LLB Beteiligungen AG, LLB Holding (Switzerland) AG and LLB Linth Holding AG merged, whereby as a result of the merger LLB Linth Holding AG emerged as the acquiring entity. After the merger, LLB Linth Holding AG changed its name to LLB Holding AG. LB(Swiss) Investment AG, which since May bears the new name LLB Swiss Investment AG, was included in the scope of consolidation for the first time. Further details about this acquisition are disclosed in the "Company acquisitions" section.

3 Foreign currency translation

Reporting date rate	30.06.2018	31.12.2017
1 USD	0.9912	0.9765
1 EUR	1.1571	1.1715
1 GBP	1.3073	1.3201

Average rate	First half 2018	First half 2017
1 USD	0.9680	0.9903
1 EUR	1.1661	1.0772
1 GBP	1.3235	1.2552

4 Risk management

In the course of its operating activity, the LLB Group is exposed to financial risks such as market risk, liquidity and refinancing risk, credit risk and operational risk. Usually, the interim financial reporting does not contain information on risk management. However, on account of the introduction of IFRS 9 for financial years beginning on or after 1 January 2018, relevant information is reported on "First application IFRS 9" in chapter 1.4 as an integral part of the accounting policies. We also refer the reader to the information on risk management provided in the 2017 Annual Report. With the exception of the changes in relation to credit risks, there were no significant changes in comparison with 31 December 2017.

5 Events after the balance sheet date

LLB took over complete control of Semper Constantia Privatbank AG (Semper Constantia) with registered office in Vienna on 4 July 2018. The expected purchase price amounted to EUR 195 million. Net assets of round EUR 107 million were acquired. A detailed disclosure will be made in the 2018 annual report. The purchase price allocation has not yet been completed. The definitive purchase price will be determined after the expiry of the earn-out period at the end of June 2019.

There were no further events after the balance sheet date which would require further information to be provided or necessitate an alteration of the 2018 consolidated interim financial reporting.

Segment reporting (unaudited)

The business activities of the LLB Group are divided into the following three business areas. These form the basis for the segment reporting.

- The Retail & Corporate Banking segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- The Private Banking segment encompasses all the private banking activities of the LLB Group.
- The Institutional Clients segment encompasses the financial intermediary and investment fund business as well as the asset management and wealth structuring activities of the LLB Group.

The segments receive comprehensive support from the Corporate Center. It comprises the following functions: finance, credit and risk management, legal and compliance matters, trading and securities administration, payment services, human resources management, communication and branding, corporate development, as well as logistics and IT services.

Following the management approach of IFRS 8 "Operating Segments" operating segments are reported in accordance with the internal reporting provided to the Group Executive Management (chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the LLB Group meet the definition of a reportable segment under IFRS 8.

In accordance with the principle of responsibility and based on the organisational structure, income and expenditure are allocated to the business divisions. The market interest rate method is used to divide interest income into interest margin contributions and structural (mismatch) contributions. The interest margin contributions are allocated to the business segments on the basis of client responsibility. The structural contributions, the income from financial investments and the valuation of interest rate hedging instruments are reported under the Corporate Center. Indirect costs, resulting from services provided internally, are accounted for according to the principle of causation and are recorded as a revenue increase for the service provider and as a cost increase for the service beneficiary. The remaining income and expenditure for overriding services which cannot be assigned to the segments are shown under Corporate Center. Furthermore, consolidation adjustments are reported under Corporate Center.

Transactions between the segments are executed at standard market conditions.

First half of 2017

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	42'741	12'031	6'896	10'961	72'630
Credit loss (expense) / recovery	−3'104	0	0	0	−3'104
Net interest income after credit loss expense	39'638	12'031	6'896	10'961	69'526
Net fee and commission income	15'482	35'131	27'589	−3'755	74'448
Net trading income	5'454	4'537	5'367	23'200	38'558
Net income from financial investments at fair value	0	0	0	5'178	5'178
Share of net income of joint venture	0	0	0	−1	−1
Other income	536	0	0	1'425	1'962
Total operating income*	**61'110**	**51'699**	**39'853**	**37'009**	**189'672**
Personnel expenses	−15'214	−15'885	−8'981	−36'788	−76'867
General and administrative expenses	−981	−1'143	−1'048	−21'976	−25'147
Depreciation and amortisation	−34	0	0	−13'955	−13'989
Services (from) / to segments	−24'952	−13'768	−6'700	45'420	0
Total operating expenses	**−41'180**	**−30'795**	**−16'729**	**−27'299**	**−116'004**
Operating profit before tax	**19'930**	**20'904**	**23'124**	**9'710**	**73'668**
Tax expenses					−13'678
Net profit					**59'990**

* There were no substantial earnings generated between the segments so that income between the segments was not material.

First half of 2018

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	44'841	16'698	9'156	6'083	76'777
Credit loss (expense) / recovery	2'665	−110	637	0	3'192
Net interest income after credit loss expense	47'505	16'588	9'793	6'083	79'969
Net fee and commission income	15'737	36'296	29'384	−3'783	77'634
Net trading income	5'541	4'396	5'673	18'775	34'385
Net income from financial investments at fair value	0	0	0	−10'370	−10'370
Share of net income of joint venture	0	0	0	−2	−2
Other income	711	2	1	1'204	1'918
Total operating income*	**69'495**	**57'281**	**44'850**	**11'908**	**183'534**
Personnel expenses	−15'183	−16'467	−9'948	−39'893	−81'490
General and administrative expenses	1'957	−1'563	−1'561	−30'960	−32'128
Depreciation and amortisation	0	0	−27	−14'691	−14'717
Services (from) / to segments	−24'678	−14'578	−7'047	46'304	0
Total operating expenses	**−37'904**	**−32'608**	**−18'583**	**−39'240**	**−128'335**
Operating profit before tax	**31'590**	**24'673**	**26'268**	**−27'331**	**55'200**
Tax expenses					−9'398
Net profit					**45'802**

* There were no substantial earnings generated between the segments so that income between the segments was not material.

Notes to the consolidated income statement (unaudited)

1 Net interest income

in CHF thousands	First half 2018	First half 2017	+/– %
Interest income from financial instruments measured at amortised cost			
Interest income from banks	9'999	7'805	28.1
Interest income from loans	83'536	82'430	1.3
Loan commissions with the character of interest	1'408	1'983	–29.0
Interest income from financial liabilities	4'300	2'574	67.1
Total interest income from financial instruments measured at amortised cost	**99'244**	**94'791**	**4.7**
Interest income from financial instruments at fair value through profit and loss			
Interest income from debt instruments	7'178	7'395	–2.9
Interest rate derivatives	1'287	1'767	–27.2
Total interest income from financial instruments at fair value through profit and loss	**8'465**	**9'162**	**–7.6**
Total interest income	**107'709**	**103'953**	**3.6**
Interest expenses from financial instruments measured at amortised cost			
Interest expenses on amounts due to banks	–362	–325	11.2
Interest expenses on amounts due to customers	–13'483	–11'526	17.0
Interest income from financial assets	–6'240	–6'027	3.5
Total interest expenses from financial instruments measured at amortised cost	**–20'085**	**–17'878**	**12.3**
Interest expenses from financial instruments, recognised at fair value through other comprehensive income			
Interest expenses from debt instruments	–289	–549	–47.4
Total interest expenses from financial instruments, recognised at fair value through other comprehensive income	**–289**	**–549**	**–47.4**
Interest expenses from financial instruments measured at fair value			
Interest rate derivatives	–10'558	–12'896	–18.1
Total interest expenses from financial instruments measure at fair value	**–10'558**	**–12'896**	**–18.1**
Total interest expenses	**–30'932**	**–31'323**	**–1.2**
Total net interest income	**76'777**	**72'630**	**5.7**

2 Net fee and commission income

in CHF thousands	First half 2018	First half 2017	+/– %
Brokerage fees	23'912	25'939	–7.8
Custody fees	15'859	15'533	2.1
Advisory and management fees	22'798	22'476	1.4
Investment fund fees	25'406	10'536	141.1
Credit-related fees and commissions	336	307	9.6
Commission income from other services	13'010	12'988	0.2
Total fee and commission income	**101'322**	**87'779**	**15.4**
Brokerage fees paid	–4'426	–4'902	–9.7
Other fee and commission expenses	–19'262	–8'430	128.5
Total fee and commission expenses	**–23'688**	**–13'332**	**77.7**
Total net fee and commission income	**77'634**	**74'448**	**4.3**

3 Net trading income

in CHF thousands	First half 2018	First half 2017	+ / – %
Trading portfolio assets	6	136	–95.3
Foreign exchange trading	28'645	25'503	12.3
Foreign note trading	–176	775	
Precious metals trading	401	607	–33.9
Interest rate instruments *	5'508	11'537	–52.3
Total net trading income	**34'385**	**38'558**	**–10.8**

* The LLB Group uses interest rate swaps for trading and hedging purposes. If the interest rate swaps do not fulfil the approval criteria according to IAS 39 in order to be booked as hedging transactions, they are treated as interest rate swaps for trading purposes.

4 Net income from financial investments at fair value through profit and loss

in CHF thousands	First half 2018	First half 2017	+ / – %
Financial investments at fair value through profit and loss			
Dividend income	265	459	–42.3
Price gains *	–10'630	–463	
Total net income from financial investments at fair value through profit and loss	**–10'365**	**–3**	
Financial investments available for sale			
Realised gain		5'181	
Total net income from financial investments available for sale		**5'181**	
Financial investments, recognised at fair value through other comprehensive income			
Dividend income	235		
of which from financial investments held on the balance sheet date	235		
of which from financial investments sold during the reporting period	0		
Realised gain	–240		
Total financial investments, recognised at fair value through other comprehensive income	**–5**		
Total net income from financial investments at fair value	**–10'370**	**5'178**	

* The realised price gains for the first half of 2018 amounted to CHF thousands minus 684 (previous year: CHF thousands minus 7'903).

5 Other income

in CHF thousands	First half 2018	First half 2017	+ / – %
Net income from properties	731	745	–1.9
Non-period-related and non-operating income	89	397	–77.6
Realised profits from sales of tangible assets *	276	106	160.9
Income from various services	822	715	15.0
Total other income	**1'918**	**1'962**	**–2.3**

* Includes income from sales of properties.

6 Personnel expenses

in CHF thousands	First half 2018	First half 2017	+ / – %
Salaries	– 63'989	– 60'288	6.1
Pension and other post-employment benefit plans	– 9'019	– 8'915	1.2
Other social contributions	– 5'962	– 5'784	3.1
Training costs	– 677	– 512	32.3
Other personnel expenses	– 1'843	– 1'368	34.7
Total personnel expenses	**– 81'490**	**– 76'867**	**6.0**

7 General and administrative expenses

in CHF thousands	First half 2018	First half 2017	+ / – %
Occupancy	– 4'491	– 5'183	– 13.3
Expenses for IT, machinery and other equipment	– 10'700	– 8'599	24.4
Information and communication expenses	– 7'197	– 6'799	5.9
Marketing and public relations	– 4'156	– 3'166	31.2
Consulting and audit fees	– 3'061	– 2'379	28.7
Capital tax and other tax	141	310	– 54.6
Material costs	– 639	– 616	3.7
Provisions for legal and litigation risks *	108	4'999	– 97.8
Legal and representation costs *	– 874	– 327	167.5
Litigation costs	– 165	– 33	403.2
Supervision fees	– 600	– 514	16.7
Other general and administrative expenses	– 493	– 2'841	– 82.6
Total general and administrative expenses	**– 32'128**	**– 25'147**	**27.8**

* See note 12 for details.

8 Tax expenses

in CHF thousands	First half 2018	First half 2017	+ / – %
Current taxes	– 8'236	– 9'108	– 9.6
Deferred taxes	– 1'162	– 4'570	– 74.6
Total tax expenses	**– 9'398**	**– 13'678**	**– 31.3**

9 Earnings per share

	First half 2018	First half 2017	+ / – %
Net profit attributable to the shareholders of LLB (in CHF thousands)	42'146	57'292	– 26.4
Weighted average shares outstanding	28'913'975	28'863'518	0.2
Basic earnings per share (in CHF)	**1.46**	**1.98**	**– 26.6**
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	42'146	57'292	– 26.4
Weighted average shares outstanding for diluted earnings per share	28'913'975	28'863'518	0.2
Diluted earnings per share (in CHF)	**1.46**	**1.98**	**– 26.6**

Notes to the consolidated balance sheet and off-balance sheet transactions (unaudited)

10 Financial investments at fair value through profit and loss

in CHF thousands	30.06.2018	31.12.2017	+/−%
Financial investments at fair value through profit and loss (IFRS 9 / IAS 39)			
Debt instruments			
listed	774'455	915'108	−15.4
unlisted	228'215	0	
Total debt instruments	**1'002'671**	**915'108**	**9.6**
Equity instruments			
listed	0	0	
unlisted	4'526	262'648	−98.3
Total equity instruments	**4'526**	**262'648**	**−98.3**
Total financial investments at fair value through profit and loss (IFRS 9 / IAS 39)	**1'007'197**	**1'177'756**	**−14.5**
Financial investments available for sale (IAS 39)			
Debt instruments			
listed		282'317	
unlisted		0	
Total debt instruments		**282'317**	
Total financial investments available for sale (IAS 39)		**282'317**	
Financial investments, recognised at fair value through other comprehensive income (IFRS 9)			
Debt instruments			
listed	675'894		
unlisted	0		
Total debt instruments	**675'894**		
Equity instruments			
listed	0		
unlisted	23'954		
Total equity instruments	**23'954**		
Total financial investments, recognised at fair value through other comprehensive income (IFRS 9)	**699'848**		
Total financial investments at fair value	**1'707'045**	**1'460'073**	**16.9**

11 Debt issued

in CHF thousands	30.06.2018	31.12.2017	+/−%
Medium-term notes *	239'967	286'014	−16.1
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions **	959'575	883'014	8.7
Total debt issued	**1'199'542**	**1'169'027**	**2.6**

* The average interest rate was 0.63 percent as at 30 June 2017 and 0.66 percent as at 31 December 2017.
** The average interest rate was 1.10 percent as at 30 June 2018 and 1.16 percent as at 31 December 2017.

12 Provisions

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2018	Total 2017
As at 31 December 2017	22'967	5'161	28'128	
ECL allowance (from first application of IFRS 9)	0	2'775	2'775	
As at 1 January	22'967	7'935	30'903	51'071
Provisions applied	−123	−505	−628	−20'337
Increase in provisions recognised in the income statement		105	105	3'134
Decrease in provisions recognised in the income statement	−108	−3'282	−3'389	−5'740
As at 30 June 2018 / 31 December 2017	**22'737**	**4'253**	**26'990**	**28'128**

The LLB Group is involved in various legal proceedings within the scope of normal banking business. It allocates provisions for ongoing and threatened legal proceedings if, in the opinion of LLB, payments or losses are likely and the amounts can be estimated.

As at 30 June 2018, the LLB Group was involved in various litigation and proceedings, which could have an impact on its financial reporting. The LLB Group endeavours to disclose the claims for damages, the scope of legal proceedings and other relevant information in order for the reader to be able to estimate the possible risk for the LLB Group.

LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks that must achieve an individual solution with the US authorities to resolve the US taxation dispute. LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., with its registered office in Zurich-Erlenbach, is responsible for the proceedings. LLB (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Federal Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG is cooperating closely with the US authorities and is working with them to achieve a final settlement of the issue, while complying with the prevailing legal regulations. In the opinion of the management, the legal risk of an outflow of resources in connection with the possibility that LLB Verwaltung (Switzerland) AG may not have complied with US law, especially US tax law, was still not unlikely as at 30 June 2018. Based on the calculation criteria applied in the non-prosecution agreement between LLB AG, Vaduz, and the US authorities, as well as the latest information and payments made by other banks, a provision was recorded in the balance sheet by LLB Verwaltung (Switzerland) AG as at 30 June 2018. The management believes the provision set aside is sufficient.

At the start of 2015, LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., received two legal claims in connection with an investment project. Several persons, who have no connection with LLB Verwaltung (Switzerland) AG, had endeavoured to persuade an investor to invest a sum in an investment project. The investment project did not exist and the persons acting fraudulently were able to embezzle a part of the investment sum. The claimants have lodged claims against LLB Verwaltung (Switzerland) AG for the payment of damages in respect of a part of the embezzled amount plus interest. LLB Verwaltung (Switzerland) AG denies that the actions of a former employee of LLB Verwaltung (Switzerland) AG led to the loss. At the beginning of October 2017, the High Court of Justice in London ruled at first instance that there had been misconduct on the part of a former employee and that LLB Verwaltung (Switzerland) AG was jointly liable for his misconduct and for the damage caused by him. LLB Verwaltung (Switzerland) AG was not liable for misconduct itself. LLB Verwaltung (Switzerland) AG appealed against this first-instance decision. On account of the first-instance decision and the non-suspensive effect of the appeal, LLB Verwaltung (Switzerland) AG has deposited an amount of CHF 15.1 million with the court for damages, interest charges and third-party lawyer's fees. In conformance with IFRS, these costs were recognised in 2017 as general and administrative expenses. LLB Verwaltung (Switzerland) AG continues to believe that this damage is covered by the insurance company.

The provisions for restructuring relate to the StepUp2020 strategy of the LLB Group announced in October 2015. For rebuilding and restoration costs associated with this strategy, and expenses for social plans for employees, provisions amounting to CHF 0.9 million were recognised as at 30 June 2018.

13 Fair value measurement

Measurement guidelines

The fair value represents a market-based measurement and not an entity-specific valuation. It is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date on the principal market or the most advantageous market.

As far as possible, the fair value is determined on the basis of the quoted market prices in active markets accessible to the company on the measurement date. An active, accessible market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value is determined using significant and observable inputs. These are basically available in the case of quoted assets or liabilities. If a market for financial or non-financial assets or liabilities is inactive, or if no observable inputs, or insufficient observable inputs, are available, the LLB Group must employ techniques or processes (valuation methods or models) to determine the fair value. The valuation techniques contain assumptions, including estimates, to enable an exit price on the measurement date from the perspective of the market participant to be determined. However, such assumptions and estimates contain uncertainties, which at a later date can lead to substantial changes in the fair value of financial and non-financial assets and liabilities. In the case of financial and non-financial assets and liabilities, for which a valuation technique involving non-observable market data is used to determine the fair value, these are measured at the transaction price. This fair value can differ from the fair value determined on the basis of valuation techniques.

All financial and non-financial assets and liabilities measured at fair value are categorised into one of the following three fair value hierarchies:

Level 1

The fair value of listed securities and derivatives contained in the trading portfolio and financial investments is determined on the basis of market price quotes on an active market.

Level 2

If no market price quotes are available, the fair value is determined by means of valuation methods or models, which are based on assumptions made on the basis of observable market prices and other market quotes.

Level 3

For the remaining financial instruments neither market price quotes nor valuation methods or models based on market prices are available. Our own valuation methods or models are employed to measure the fair value of these instruments.

Valuation methods

Valuation methods and techniques are employed to determine the fair value of financial and non-financial assets and liabilities for which no observable market prices on an active market are available. These include, in particular, illiquid financial investments. If available, the LLB Group uses market-based assumptions and inputs as the basis for valuation techniques. If such information is not available, assumptions and inputs from comparable assets and liabilities are employed. In the case of complex and very illiquid financial and non-financial assets and liabilities, the fair value is determined using a combination of observable transaction prices and market information.

The LLB Group employs standardised and accepted valuation techniques to determine the fair value of financial and non-financial assets and liabilities which are not actively traded or listed. In general, the LLB Group uses the following valuation methods and techniques as well as the following inputs:

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Trading portfolio assets	Market to model	Market prices of underlying assets	
Own investment funds	Market to model	Market prices of underlying assets	
Derivative financial instruments	Option model	Underlying assets of future contracts	
Due from banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Loans	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to customers	Present value calculation	Marktet price of congruent LIBOR interest rates	
Debt issued	Present value calculation	Marktet price of congruent LIBOR interest rates	
Accrued income and prepaid expenses / Accrued expenses and deferred income	Fair value corresponds to carrying value on account of the short-term maturity	Price conditions; deferred income corresponds to deferrals on commissions and fees	
Level 3			
Financial investments at fair value through profit and loss	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Financial investments, recognised at fair value through other comprehensive income	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.
Non-current assets held for sale	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of the LLB Group's financial and non-financial assets and liabilities within the fair value hierarchy. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As at 30 June 2018, the LLB Group had no assets or liabilities that were measured at fair value on a non-recurring basis in the balance sheet. In the first half of 2018 there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

in CHF thousands	30.06.2018	31.12.2017	+ / − %
Level 1			
Trading portfolio assets	1	52	−98.5
Financial investments at fair value through profit and loss	774'455	915'108	−15.4
Financial investments available for sale		282'317	
Financial investments, recognised at fair value through other comprehensive income	675'894		
Total financial instruments at fair value	**1'450'351**	**1'197'477**	**21.1**
Cash and balances with central banks	4'229'939	4'129'723	2.4
Total financial instruments not at fair value	**4'229'939**	**4'129'723**	**2.4**
Total Level 1	**5'680'289**	**5'327'201**	**6.6**
Level 2			
Trading portfolio assets	32	10	216.5
Derivative financial instruments	72'170	58'740	22.9
of which for hedging purpose	2'091	1'438	45.4
Financial investments at fair value through profit and loss	232'741	239'199	−2.7
Total financial instruments at fair value	**304'944**	**297'949**	**2.3**
Due from banks	2'232'385	1'940'433	15.0
Loans	12'395'508	12'083'966	2.6
Accrued income and prepaid expenses	48'743	39'395	23.7
Total financial instruments not at fair value	**14'676'635**	**14'063'794**	**4.4**
Total Level 2	**14'981'579**	**14'361'742**	**4.3**
Level 3			
Financial investments at fair value through profit and loss		23'449	
Financial investments, recognised at fair value through other comprehensive income	23'954		
Total financial instruments at fair value	**23'954**	**23'449**	**2.2**
Total financial instruments not at fair value	**0**	**0**	
Investment property	15'000	15'000	0.0
Non-current assets held for sale	3'504	6'734	
Total other assets at fair value	**18'504**	**21'734**	**−14.9**
Total Level 3	**42'458**	**45'183**	**−6.0**
Total assets	**20'704'326**	**19'734'126**	**4.9**

in CHF thousands	30.06.2018	31.12.2017	+/– %
Level 1			
Total Level 1	**0**	**0**	
Level 2			
Derivative financial instruments	121'238	117'448	3.2
of which for hedging purpose	2'211	1'795	23.2
Total financial instruments at fair value	**121'238**	**117'448**	**3.2**
Due to banks	1'436'968	943'316	52.3
Due to customers	16'175'315	15'652'158	3.3
Debt issued	1'199'542	1'169'027	2.6
Accrued expenses and deferred income	36'836	30'250	21.8
Total financial instruments not at fair value	**18'848'661**	**17'794'750**	**5.9**
Total Level 2	**18'969'899**	**17'912'198**	**5.9**
Level 3			
Total Level 3	**0**	**0**	
Total liabilities	**18'969'899**	**17'912'198**	**5.9**

Measurement of assets and liabilities classified as Level 3

For the recurring measurement of the fair value of investment property for which significant, non-observable inputs have been used and which are classified as Level 3, there were no effects on the income statement in the first half of 2018. A portion of the properties classified in non-current assets held for sale as at 31 December 2017 was sold as planned. No new assets were added to the portfolio. Accordingly, the change in value between the current and the comparison periods therefore relates solely to the change due to disposals.

The measurement process to determine the fair value of recurring and non-recurring Level 3 assets and liabilities, especially the significant non-observable inputs, as shown in the previous table, are explained in the following. The interrelationships between observable and non-observable inputs are not explained in the following, because such interrelationships have no significant influence on the measurement on fair value.

Financial investments at fair value through other comprehensive income

Following the changeover to IFRS 9, financial investments at fair value through profit and loss were designated FVOCI. This new designation means that only the recognition of the alteration in fair value changes, the measurement of the fair value remains the same.

Financial investments are periodically valued through profit and loss on the basis of market values provided by external experts. The financial investments consist of the non-listed shares of companies, which are periodically revalued on the basis of current company data or by third parties with the aid of valuation models. The valuation is made available to shareholders. An own valuation by shareholders based on observable or significant non-observable inputs is therefore unnecessary. How changes would affect the fair value, or how sensitively this would react, cannot be quantified or would have to be based on various assumptions to be made by LLB on how the company will develop. Since these are investments having an infrastructure character, whereby basically the fair value has changed in the last few years only by the amount of profit attained, a sensitivity analysis would bring no additional benefit for the reader of the financial statement. The financial investments do not diverge to highest or best use.

Investment property

Investment property is periodically valued by external experts or is valued on the basis of relative values in a market comparison. If no corresponding values for comparable properties are available on which to base a reliable calculation of the fair value, assumptions are made. These assumptions contain assessments and considerations of such circumstances as the location and condition of the property, as well as the expected costs and revenues with it. Properties are always revalued whenever on the basis of events or changed circumstances the fair value no longer reflects the market price, so that changes in the calculation of the fair value can be promptly determined and recognised in the accounts. Changes in the inputs, on which the measurement of the fair value is based, can lead to significant changes in it. It cannot be quantified to what extent changes influence the fair value and the sensitivity of fair value, because the valuation of a property is based on an individual measurement, which is influenced by various assumptions. Consequently, a significant change in the fair value can occur, which is not quantifiable. Investment properties do not diverge to highest and best use.

Non-current assets held for sale

Non-current assets held for sale encompass only wholly owned properties, which currently comprise bank branches and unused properties (see note 14 "Non-current assets held for sale"). These are valued in the same way as investment property.

Financial instruments not measured at fair value

The fair value hierarchy also includes details of financial assets and liabilities that are measured on a basis other than fair value, but for which, however, a fair value exists. In addition to their inclusion in the fair value hierarchy, basically a comparison between the fair value and the carrying value of the individual categories of financial assets and liabilities is to be shown.

The following table shows this comparison only for positions, which are not measured at fair value because for positions measured at fair value, the carrying value is the same as the fair value. On account of the maturity being longer than one year, for certain positions the present value was calculated on the basis of LIBOR interest rates appropriate for the duration. For all other positions, the carrying value represents a reasonable approximation of the fair value.

	30.06.2018		31.12.2017	
in CHF thousands	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with central banks	4'229'939	4'229'939	4'129'723	4'129'723
Due from banks	2'232'385	2'232'409	1'940'433	1'944'825
Loans	12'395'508	12'902'788	12'083'966	12'595'887
Accrued income and prepaid expenses	48'743	48'743	39'395	39'395
Liabilities				
Due to banks	1'436'968	1'439'010	943'316	945'030
Due to customers	16'175'315	16'232'561	15'652'158	15'708'690
Debt issued	1'199'542	1'236'593	1'169'027	1'215'905
Accrued expenses and deferred income	36'836	36'836	30'250	30'250

14 Non-current assets held for sale

Wholly-owned properties, which currently encompass bank branches and unused properties, are to be sold. As at 30 June 2018, the carrying value of these positions was CHF 3.5 million. In the period under report, income amounting to CHF thousands 509 was earned from the sale of non-current assets held for sale.

15 Off-balance sheet transactions

in CHF thousands	30.06.2018	31.12.2017	+/– %
Contingent liabilities	69'739	54'598	27.7
Credit risks	256'481	256'865	–0.1
Contract volumes of derivative financial instruments	13'649'656	12'827'495	6.4
Fiduciary transactions	488'074	364'288	34.0
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	482'675	395'266	22.1

Company acquisitions (unaudited)

As at 3 April 2018, LLB acquired 100 percent of LB(Swiss) Investment AG (LB(Swiss)). The acquisition was made within the scope of a share deal with the previous sole owner, the Frankfurter Bankgesellschaft (Switzerland) AG. LB(Swiss) offers efficient, made-to-measure investment fund management, compliance and risk management services.

With this acquisition LLB accomplishes its planned strategic market entry in Switzerland. The expertise of LB(Swiss) makes it possible for the LLB Group to offer classical investment fund services (51 funds with a gross fund volume of CHF 4.7 billion as at 31 March 2018), to act as representatives for foreign funds and to provide consulting services in the fields of compliance and risk management. LB(Swiss) is to be renamed "LLB Swiss Investment AG" and shall continue to operate in Switzerland as an independent company.

Acquired net assets	in CHF thousands
Cash and balances with central banks	8'484
Various receivables	596
Accrued income and prepaid expenses	302
Financial investments	1'180
Other fixed assets	26
Intangible assets	15'795
Deferred tax assets	327
Aquired assets	**26'709**
Various liabilities	51
Accrued expenses and deferred income	229
Derivative financial instruments	37
Pension benefit obligation	1'635
Deferred tax liabilities	3'084
Assumed liabilities	**5'036**
Aquired net assets	**21'673**
Total purchase price	**32'947**
Goodwill	**11'274**
Cash outflow from acquisitions	**16'456**

The purchase price for LB(Swiss) amounted to CHF 32.9 million as at 3 April 2018. This sum includes an earn-out obligation totalling CHF 1.9 million as well as a deferred purchase price payment of CHF 6.1 million due on 3 October 2019.

The valuation of assets and liabilities has not yet been completed. This is based on preliminary information and measurements, and is therefore reported only on a provisional basis for the moment.

The purchase price is composed of a cash payment on the acquisition date and a final payment on the earn-out closing date, 18 months after the completion date. The final payment includes a deferred purchase price payment resulting from the provisional goodwill compensation (30 % of the provisional goodwill compensation as at 3 April 2018) and earn-out components. The scope of the earn-out components depends on the development of assets under administration up to the earn-out closing date.

The individual factors comprising the measured goodwill include, in particular, the employees taken over, the available know-how, the strategic market entry in Switzerland and the growth associated with this, as well as synergy effects. On the earnings side, significant synergy effects will result from a more robust growth of net new assets. Goodwill and amortisation of goodwill are not tax deductible.

70 percent of goodwill is assigned to the CGU LLB Swiss Investment AG and 30 percent to the CGU LLB AG.

The costs relating to the acquisition amounting to CHF 0.8 million were recognised directly in the income statement under general and administrative expenses.

Measurement methods and input factors relating to the market value measurement of intangible assets, as well as sensitivity of input factors

The intangible assets were measured using the following methods and input factors:

- Client relationships: Measured using the multi-period excess earnings method. Sensitive input factors are the planned cash flows, the shrinkage rate with existing clients and the discount rate.
- Software: Measured using the cost approach. The sensitive input factor is the number of work days required to replicate the software.
- Licenses and permits: Measured using the cost approach. Sensitive input factors are the duration of the application procedure and the scope of the underlying cost components.

The "intangible assets" position encompasses the fair values of client relationships (CHF 13.6 million), software (CHF 1.9 million) and permits (CHF 0.3 million).

Since 3 April 2018, LLB Swiss Investment AG contributed CHF 0.3 million to Group net profit and CHF 1.7 million to total operating income as at 30 June 2018. If the business combination had occurred as at 1 January 2018, LLB Swiss would have contributed CHF 0.8 million to Group net profit and CHF 3.3 million to total operating income.

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The LLB Group in profile

The LLB Group successfully positions itself as a universal bank with a strong private banking and institutional business.

First bank in Liechtenstein
founded in 1861

Moody's rating
Aa2

Banks:
Liechtenstein, Switzerland and Austria

Competence centres:
Asset Management, Fund Services

Three high-earning market divisions

38.3 %
Retail & Corporate Banking

29.9 %
Private Banking

31.8 %
Institutional Clients

Diversified income structure

42.4 %
Investment business

15.8 %
Trading business

41.9 %
Interest business

Outstanding investment competence

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AI Hedge Fund Awards, Liechtenstein, 2018
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