

## 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 sideways 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 Aaa 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